BARRIERS AND THREATS TO FOREIGN DIRECT INVESTMENT (FDI) IN SAUDI ARABIA: A STUDY OF REGULATORY, POLITICAL AND ECONOMIC FACTORS

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ABSTRACT

The overarching purpose of this thesis is to identify and study barriers that have had the most effect on Foreign Direct Investment (FDI) and how these barriers have affected investors with plans of investing in Saudi Market. The barriers have been divided into three factors; political factors (the effect Arab Spring, Iran nuclear program and activities of terrorist groups have had on Saudi Arabia, regulatory factors (bureaucracy rules, government rules and social culture) and economic factors (effect of macroeconomic variables and exchange rate on FDI)

After proper evaluation of literature and concepts, it became evident that the above factors have had effect on FDI, and this culminated in the design of a conceptual framework as well as some propositions for each of the factors; political factor (stability in government, internal and external conflicts, and international relations), regulatory factors (liberality, regulation, bureaucracy and impact on culture), and economic factors (growth rate, stability of currency, economic variables and market size).

Needed data were obtained from interviews conducted on participants who gave their views concerning FDI sector (government officials, independent consultants and foreign investors). Furthermore, an inductive approach was used to identify the effect of changes to the current currency policy of Saudi Riyal pegged with US$ in a fixed exchange rate.

Results have shown that regulations currently been put in place by the government as well as societal customs, have had adverse effect on FDI. However, political stability being enjoyed by Saudi Arabia has been pivotal in attracting foreign investment into the country. Added to this, acts of terrorism and the Iranian relationship have in no way affected FDI coming into the country. Though it became clear that any attempt by the government to acquire nuclear

weapons, will have a negative effect on Saudi Arabia. The current economic standing of Saudi Arabia has attracted more foreign investments, as the country has been enjoying economic stability. It was also discovered from the studies that the increasing price of oil has had varying effect on FDI. Inflation has not been a major barrier to foreign investments. Current exchange policies have favored FDI; it became evident that any alteration of this policy will have a negative effect on FDI.

In term of theoretical contribution, the study found that the literature does not fit with the Saudi Arabian case as high inflation rate, as well as the external and internal crises weren't found to be as barriers for FDI in Saudi Arabia. In addition, the research has contributed a conceptual framework based on previous studies integrating regulatory, political and economic factors that can be used for any further research on FDI. In term of practical contributions, the study explored possible effect of new potential risks such as Arab Spring and nuclear weapon. The research will be useful for both regulator and investors as it clearly identifies the action necessary to attract FDI as well as provide a set of guidelines for investors who intend to enter Saudi market.

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CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter is an overview of the research background, aim, objectives, questions, methodology, findings, contributions, and research structure of this thesis. Other areas to be considered in this chapter include an overview of various opinions on FDI in Saudi Arabia and the factors that motivated the researcher to carry out this research.

1.1 Motivation

The primary aim of this research is to examine the factors acting as barriers to Foreign Direct Investment (FDI) in Saudi Arabian Market (hereafter, sometimes referred to as Saudi Market), and how these factors discourage investors from penetrating the market.

The importance of Saudi Arabia in the world economy is the driving force behind this study. Saudi Arabia is the biggest oil exporter in the world and also the country with the highest FDI in Western Asia (Haj-Kacem, 2014; UNCTAD, 2014).

Foreign Direct Investments in Saudi Arabia are likely to be affected by political events (Arab Spring and the Iranian Nuclear issue) in the countries surrounding her, and also by events (such as terrorist activities) in the Kingdom itself. Other factors that could attract or repel investors who intend to invest in the Saudi Market includes government regulations, bureaucracy, and culture.

Some economic variables were investigated, and these include the oil prices, inflation rate, unemployment rate, monetary policy, the GDP per capita and the total reserve (over the last thirty years). Also investigated, is the effect of these variables on the flow of FDI into the country, whether the impacts are positive or negative.

This thesis identified the major factors that negatively affect the flow of FDI and those that positively affect it. The study also identified those factors that should be eliminated to pave the way for FDI and those that should be improved.

1.1.1 Background

According to Haj-Kacem (2014), the economy of Saudi Arabia is anchored on oil. The country is the biggest exporter of oil in the world and holds 18% of global oil reserves. Noticeably, the economy of Saudi Arabia has been growing consistently since 1973 as a result of the shock in oil price in the 1970s. Today, Saudi Arabia is a major leader in Oil Production and Exporter Countries (OPEC). The GDP of Saudi Arabia leaped from 4.2 billion US dollar in 1968 to 745 billion US dollar in 2013, making the Kingdom's economy the largest in the region. One can look at the historical growth of Saudi economy through a series of five years plans.

The first and second plans focused on the development of infrastructures such as the expansion of motorways (roads) and ports, which took place in 1970 and 1975 respectively. The third plan commenced in 1980 with a focus on education, health and social services. The fourth plan was in 1985, which concentrated on the development of private sectors and diversification of the Kingdom's economy. This period experienced significant growth in the industrial sector, telecommunication, and power generation sectors (Ibid).

The next plan, which is the fifth, commenced in 1990 with a focus on creating more job opportunities for Saudi citizen against foreign labours. The government built more universities and technological institutions to enhance the social service sector. The ninth plan which began in 2010 was aimed at further developing infrastructure, the health sector, and providing more properties for citizens (Haj-Kacem, 2014).

1.1.2 FDI in Saudi Arabia

According to the 2014 World Investment Report of the United Nation Conference on Trade and Development (UNCTAD), Saudi Arabia has the third largest number of Foreign Direct Investments (FDI) in Western Asia. However, there are political and social factors acting against FDI in the Kingdom. Other factors include the limited approach to credit and the rules on domestic labour (Saudization) launched in 2011.

FDI is the biggest recorded success from Saudi Arabia’s economic diversification. The Kingdom has continued to improve infrastructure in order to attract more foreign investments. The FDI also serves as a means of solving youth unemployment. The government greatly welcomes those FDIs that transfer know-how and hire a domestic workforce which will result in economic growth and development of the energy sector (Hvidt, 2013).

The Kingdom’s relatively stable exchange rates, controlled inflation, overseas privatisation plans for companies, and openness to foreign capital in the upstream gas are some factors attracting FDI to the Kingdom. Banks are also playing a crucial role in boosting Saudi’s economy by enhancing the growth of the non-oil sector. Therefore, entry to the world's major

oil exporter with suitable energy costs and a high cost of living, are crucial factors considered by foreign investors (Stander Trade Report, 2015).
Investors who are experienced on how to overcome the initial obstacles faced by non-Saudi nationals see the Saudi market as stable and good for FDI. The economy of Saudi Arabia continues to grow at a steady pace, irrespective of the political strife in the Middle East and North Africa. The Kingdom’s GDP has increased 3.8% for CY2013 (US Department of State, 2014).

Improving the investment environment continues to be an essential item on the Saudi Authority’s (SAG) broader agenda. Other items on the agenda include the development of the business and investment system, diversifying an economy that is excessively dependent on the production of oil and creating employment for the younger generation. The government supports investment in different sectors, such as transportation, training, health, telecommunications technology, sciences, and energy. Investment is also encouraged in "Economic Cities" that are considered the heart of development. The Saudi General Investment Authority (SAGIA) is working tirelessly to provide information and support to foreign investors who are willing to invest in vital areas such as energy, transportation, and the know-how sectors (SAGIA, 2013).

From time to time, the SAGIA assesses the activities of certain Foreign Direct Investments (FDI) in their forbidden or controlled list such as in the area of oil exploration, military, industry, security and investigation services. Others include real estate investment in Makkah and Almadina, the pilgrimage services and publication services (US Department of State, 2014). However, the new FDI law is a serious modification of the old one by SAGIA under the supervision of the Supreme Economic Council. In the old law, certain limitations were placed on FDI which includes banning of foreigners from investing in sectors reserved for the government and domestic companies. Such sectors include publishing services, communications sectors, education and training services, hospitals and health, insurance and electric power production (Khyeda, 2007).

Saudi Arabia is considered a developing country with high revenue per capita because of the quantity of oil she produces and sells to the world. The proximity to the source of economy is completely positive; however, distance or location negatively influences the flow of FDI. The geographical location that affects FDI is evaluated in terms of the amount of FDI. Cultural matters in relation to FDI are taken into account by analysing the total investment spending.

1.2 Research Aim, Objectives and Questions

Kothari (2004) stated that people carry out research because of the intrinsic desire to find solutions to problems through the use of systematic techniques. Every research seeks to find hidden facts in relation to what is being researched about. Every research embarked upon has a personal and unique determination or desire to find solutions (answers) to problems (questions).

1.2.1 Aim

The aim of this research is to examine the factors challenging foreign investors who do or desire to do business in Saudi Arabia.

1.2.2 Objectives

Below are the objectives of this study:

(a) To study the effect of Saudi Arabia's regulatory policies on FDI.

(b) To examine how political factors (both internal and external) affect FDI in Saudi Arabia.

(c) To examine how economic factors affect FDI in the Saudi market.

(d) To provide strategic solutions on how foreign investors can predict potential risks in the Saudi market.

1.2.3 Research Questions

(a) What are the ways in which government policies positively or negatively affect the inflow of FDI into Saudi Arabia?

(b) What are the impacts of political factors such as the tension between Saudi Arabia and Iran, terrorist activities, and the Arab Spring on FDI in terms of entering and remaining in the Kingdom's market?

(c) What is the impact of the macroeconomic situation on economic growth and the flow of FDI?

(d) How do the Saudi Riyal policy and its possible change in the future affect FDI in Saudi Arabia?

(e) Which strategic solutions can be applied to predict and hedge potential risks in Saudi market?

1.3 The Selected Research Methodology

This study utilizes Qualitative Methods (Semi-structured Interviews) to collect data. Detailed interviews were conducted with different categories of respondents who have connections to foreign investments in Saudi Arabia. This strategy enabled the researcher to analyze the potential risks and opportunities present in the Saudi market.

Furthermore, two kinds of research strategies were applied in this study; they are Case Study and Grounded Theory. The Case Study technique was applied in the sense that this research aims at studying the case of Foreign Direct Investment (FDI) in Saudi Arabia and the barriers faced by investors who trying to come into the market. Whereas, the Grounded Theory strategy was applied in order to examine the impact of a possible change in the Kingdom's monetary policy on FDI. Since there were no previous findings or pieces of literature on this case, the Grounded Theory was used to build an innovative literature.

1.4 The Key Findings

1.4.1 Regulatory Findings:

- Foreign investors do not always like entering markets directly; they like partnering with local investors.
- The culture of the people and their general awareness can be considered as a major barrier to FDI.
- The local media has a counterbid to depict a poor picture of FDI.

- The Saudization policy has been considered as a fundamental barrier to foreign investments.

1.4.2 Political Findings:

- The activities of terrorist groups have very limited effect on FDI.
- The political conflict between Saudi Arabia and Iran has the potential of creating investment opportunities in Saudi Arabia.
- Foreign investors do not see the Iranian nuclear program as a serious threat to investment in Saudi Arabia.
- If Saudi Arabia tilts towards obtaining a nuclear weapon, foreign investors will start withdrawing their investments in anticipation of the imminent economic sanctions that would be imposed on the Kingdom by the international body.
- If Saudi Arabia develops a nuclear program for civil purposes, the flow of FDI in the Kingdom will be enhanced.
- The Arab Spring affected the economy of Saudi Arabia positively.
- The conflicts in neighbouring countries surrounding Saudi Arabia have made foreign investors adopt a short-term investment strategy in the region.

1.4.3 Economic Findings:

- The industrial sector is the most preferred sector for FDI.
- The agricultural sector is considered a less favourable sector for FDI.
- The current decline in oil prices compelled the Saudi government to give more attention to FDI.
- The inflation rate does not have a real effect on FDI in Saudi Arabia.

- The average wage for new Saudi employees is competitive compared to the other gulf countries.
- High unemployment rate leads to a drop in purchasing power, which ultimately impacts on the flow of FDI.
- The current monetary policy that pegged the Saudi Riyal with the US dollar is favourable to foreign investments.
- Raising the value of Saudi Riyal will not boost FDI in any significant way.
- Pegging the Saudi Riyals with numerous currencies will affect FDI negatively, as investors will view such a situation as having a higher risk for a business.

1.5 The Contribution

1.5.1 Theoretical Contributions

- The economic literature does not regularly fit all cases (inflation, activities of terrorism, and external conflict).
- Examining a number of updated issues and events.
- Applying Grounded Theory to study how FDI is affected in the event of any change in the relationship between SAR and US dollar.
- Developing detailed conceptual frameworks (incorporation of different kinds of literature and previous studies).

1.5.2 Practical Contribution

- Exploring new potential risks (Arab Spring and Nuclear Weapons).
- Exploring the effect of the relationship between the government and foreign investors.
- Investors' considerations when entering the Saudi market.

- Further actions that were taken by the government to improve FDI.
- A set of guidelines for investors who intend to enter the Saudi market.

1.6 Research Structure

The first chapter is an Introduction to the study, with discussions on the research motivation, aim, objectives, and questions that are relevant to the investigation. The research methodology described the processes applied in this study.

The second chapter is Literature Review, which discussed the main factors that serve as barriers to FDI. The author has expounded a number of previous studies and literature about the influence of the regulatory, political, and economic policies on FDI. These pieces of literature served as guidelines during the investigation of factors that cause barriers to FDI in Saudi. The pieces of literature were examined using the Saudi market as a case study.

The third chapter deals with the Conceptual Framework of the Study. This chapter captures the key issues that will be analyzed throughout the Literature Review chapter. The conceptual framework was designed based on the relevant pieces of literature and studies that were reviewed in the second chapter of this study.

The fourth chapter (Research Methodology) described the manner in which the research was conducted, such as research philosophy, approach, methods, time, credibility, and ethics. A qualitative method was employed to collect and analyse relevant data.

Chapter five, six and seven discussed various aspects of the Research Analyses. These chapters provided the avenue to discuss in details the regulatory, political, and economic policies affecting (negatively or positively) FDI in Saudi Arabia. The outcome of the Semi-structured in-depth interviews conducted with selected samples (respondents) was discussed in these chapters. Participants' answers to research questions were discussed also.

In chapter eight, the findings of chapter five, six, and seven were discussed with links to existing studies and pieces of literature in order to ascertain whether or not, such studies and pieces of literature correspond with the case of Saudi Arabia.

The final chapter is the Conclusion and Summary section of the research. This chapter answered the research questions and discussed the findings of the study. Consequently, the limitations of the research were discussed with suggestions on future implications.

1.7 Summary

In this chapter, we have been able to highlight the structure and purpose of this investigation. The research is focused on the limitations on foreign investment or importation of capital into the Saudi market. We have also listed a number of research questions and objectives that are intended to be answered in order to explore the potential barriers faced by investors entering the Saudi market. The risks that could be caused by government procedures, external political issues or changes in macroeconomic variables were also discussed. Relevant pieces of literature will be discussed in the next chapter (Literature Review), and the philosophy and tools used in conducting this research will then be elaborated upon. The conceptual framework will link the concepts with the research aims, and the result and conclusion of the research will be presented.

The next chapter being chapter two (Literature Review), will look at applicable and relevant pieces of literature that explain the function of FDI. The things investors consider before deciding whether or not to enter a new market will also be discussed.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

The main aim of this chapter is to examine previous literature and research done on foreign investment. It has been broken into three parts, with each part having a relationship with the fundamental principle of this study and how it affects FDI coming into any country, especially Saudi Arabia. The first part examines regulatory factors, going a step further to review the market of Saudi Arabia, the goal of FDI, and all obstacles hindering the incoming of foreign investors into Saudi Market.

The second part of the literature review focuses on all political factors affecting foreign assets with terrorism being the most prominent. It studies the effect of terrorism on Saudi economy, FDI and what will happen if Saudi Arabia decides to embark on nuclear armament, and effect of Arab Spring on FDI.

The third part of this literature examines economic factors such as Gross Domestic Product (GDP), macroeconomic variables, FDI, unemployment rate, currency exchange rate, unemployment rate etc.

2.1 Foreign Direct Investment

De Espana and Duce (2003) reference OECD and IMF definition and so defined foreign direct investment as follows “direct investment is based upon the interest a direct investor has in an economy in the form of an enterprise which is located in another economy. This “lasting interest” signifies a long lasting relationship between a direct investor and the direct investment enterprise, including the influence it will have on management. Direct investment extends to the initial relationship and transaction that is existent between the enterprise and the investor, taking account of all subsequent capital transaction existent between investors and affiliated enterprise including the incorporated and unincorporated"

According to World Bank (2016) foreign direct investment is used to describe investment capital that is brought into the reporting economy. It is dependent on the size of capital, re-investment of profits as well as other wealth. Direct Investment is often used to describe the investment that links up an investor residing in a foreign country and having the power to control the management of a business that operates in another country.

Lohith (2016) has presented the advantages and disadvantages of key factors influencing FDI in a tabular form as follows

Foreign Direct Investment	
Advantage	Disadvantage
• Nations with very little capital depend on FDI for economic growth • FDI brings in much needed industrial input like management skills, technical knowhow and business expertise • Creation of jobs • Enhanced productivity • Building up of capital with the incoming of investment. • Stimulates more competition with the local economy • Enhanced export sector • More revenues coming from tax • Improved product quality which can be bought at low prices	• Ownership of local companies is lost to foreign investors • Whatever competitive advantage local businesses have will be lost to foreign companies • The domination of highly profitable sectors by multi national companies by investment in technology and intellectual stuff than in a wages of the local people. • Government exerts very little control over this companies as they have their base overseas

Table 1 Advantage and Disadvantage of FDI

2.1.1 Economic Growth and FDI

According to Abdel-Rahman (2010) the market size of a country’s economy is the first factor considered by foreign investors. Abdul-Rahman employed an empirical model in evaluating economic variables which affects the market size of the host country. This states that GDP variable and growth rate has a positive correlation with FDI. Growth rate is positive variable which determines market size of the host country, expanding as the FDI coming into the host country expands and so attracting more investors.

Borensztein et al. (1998) was of the opinion that FDI influences ecommic growth in more ways than one. In the opinion of Gregorio (2003) the more an economy expands, the greater its ability to attract more FDI which will lead to knowledge and technology transfer, eventually leading to foreign investment reaching three times the value of local investment. Borensztein et al. (1998), Markusen et al. (1999), Driffield (2004) and Dees (1998) all agreed that FDI contributes significantly to economic growth, adding considerable value to the host country.

Furthermore, Balasubramanyam et al. (1999) and Bengoa and Sanchez-Robles (2003) were all of the opinion that FDI affects the economy in more positive ways than one, as it helps improve the quality of labor. Sometimes however, an economy might experience fluctuations brought about by the relationship existent between foreign investors and local human resource.

UNCTAD (1999) highlighted some factors that help improve the effectiveness of FDI and hence improve the performance of the host country in terms of average income per person, domestic investment, political policies, domestic investment and regulations surrounding investment.

It became evident the criteria for FDI has been on the increase due to the fact that FDI has been a major pillar to industrial production, provided needed knowledge, brought about technological transfer, improved human resource development and increased export volumes to other countries (Caves 1996)

However, Lipsey (2004) was of a different opinion, arguing that FDI bear little influence on the economic expansion of the host country. Alfaro (2003) took sides with Lipsey (2004) stating that FDI has no sort of positive correlation with economic growth. Furthermore, different influence levels of FDI have been identified including the effect they have on different sectors. FDI has a positive correlation with the industrial sector, affecting primary sector negatively and having a vague effect on the primary sector.

Furthermore, De Mello (1999), Eller et al. (2005), and Al-Iriani and Al-Shamsi (2007) were all of the opinion that FDI counters economic growth in developing countries, decreasing local capital as well as the output of different sectors. Carkovic and Levine (2002) gave support to this opinion, stating the effectiveness FDI has on an economy varies from country to country, interacting with economic variables, making it difficult to accurate measure the effectiveness of FDI on an economy.

Added to this, Akinlo (2004) opined that the effect of local and foreign investment on an economy is interrelated and so can’t be evaluated differently. Even though FDI bears a positive effect on the industrial sector, it is an entirely different case for the national economy.

2.1.2 Policies and FDI

Loree and Guisinger (1995) divided FDI into different categories, stating that foreign companies who trade their products and service within the local economy are well focused on market size than those that export theirs.

In the view of Khathlan (2014) social life, political and economic factors of the host country influences FDI. Stability of the economy is one vital factor that foreign investors take into consideration. They are also concerned with market growth, investment regulations, availability of infrastructure projects, tax policies, stock market, income level, expansion of the industrial sector, availability of skilled labor and sustained government expenditure. Generally, foreign investment adds great value to an economy in that it increases availability of local capital.

Fry et al. (1995) observed that compelling companies to submit export profits to investment experts coupled with distinct exchange rate reduces the chances of FDI becoming self-governing. A foreign exchange structure that is flexible and open-minded will most likely attract FDI that is self-governing or exogenous. When liberated, FDI has some connections with the growth of capital development.

Carkovic and Levine (2002) whose findings were obtained from empirical study, all agreeing that FDI leads to economic expansion of the host country, provided that polices are less restrictive towards the import/export sectors.

On the other hand, Hansen and Rand (2006) were of the opinion that FDI brings about economic expansion. Furthermore, foreign investors whose major aim is to discover more opportunities to amass profit, are attracted to economies with significant growth rate.

Previous studies have taken into account which when used alongside FDI, will bring about further economic expansion. Buckley et al. (2002) pointed out factors such as access to market, savings rate, technology and market policies as factors upon which FDI depends on in improving FDI. However, it has been observed that FDI can negatively affect the economy of the host economy as it most times brings about flow of profit out of the country.

Bengoa and Sanchez-Robles (2003) pointed out some factors that attract long-term foreign investments into a country, with some of them being human capital, infrastructure, economic growth and access to the market. De Mello (1999) and Obwona (2001) were of the view that the host country can make the most out of FDI by making improvements to its political and trade policies.

2.1.3 Progress of FDI in Different Countries

Busse and Hefeker (2007) conducted a cross-sectional study to examine FDI movement across 83 developing countries. It was observed that factors such as democracy, religion and stability in government, had considerable effects on FDI. Furthermore, internal and external conflicts, government regulations and bureaucracies all affected FDI.

It has become evident that the influence of FDI is different for different countries. Alguacil et al. (2002) observed that FDI for Mexico, is more bent towards exportation. Kamaly (2002) observed that the Middle East has experienced growth in its GDP due to increased inflow of FDI. Brock (2005) observed that FDI was very much active during the transition period in Russia. Kornecki and Borodulin (2006) made use of Cobb Douglas module in studying the impact of FDI on the economy of the US. It was observed that FDI in the country had contributed to 25% growth of the country's economy, thus increasing efficiency in workforce and fixed investments meant for the export sector. In the vein, Gross et al. (2007) made use of the same module in examining the impact of FDI, after which it was discovered that FDI has brought about 16% growth in the US economy.

According to Borensztein et al (1998) FDI provides the channel through which technology and technical know-how can be transferred to the country. In their opinion, high technological advancement had the potent to improve long-term foreign investment.

2.2 Regulatory factors

Past literature and studies done on regulatory factors and how they affect FDI have been done taking the following sections into consideration.

2.2.1 A General View of Saudi Market

Ibrahim (2013) has identified the increasing price of oil as the major factor behind the growth of the Saudi Economy in 2010. Also, non-oil sectors experienced growth as a result of increased government spending. Furthermore, 87.7 billion Saudi Riyal was pumped into the actual budget in 2010, signifying growth considering that it was 86.6 billion in 2009. Added to this, public debt fell significantly, dropping from 16.1% per GDP in 2009 to 10% per GDP in 2010. The increasing rate of payment for the year added an extra 250.3 billion Saudi Riyal, as discovered by Saudi Monetary agency in 2011.

The economy of Saudi Arabia depends majorly on oil, with 85% of the country's income being sourced from petrochemical related fields. Saudi Arabia is the largest exporter of oil, having an oil reserve that far exceeds that of other countries. In recent times, efforts have been made by the government to create other avenues of income, expanding the private sector using a five-year developmental program. The need to open the economy to international economies, have brought about new revenue sources such as FDI (Khathlan 2014).

Foreign Investment has been the channel which connects global economies. To attract more foreign investors, the government of Saudi Arabia made adjustments to its rules and regulation regarding FDI in 2000. As a matter of fact, there was a total revision of several laws including corporate laws and other trade-related laws (Ibid).

These steps by the government has improved Saudi's ranking in the global market, rising from and index of 67 to 13 in 2009 (World Bank, 2010). Saudi Arabia has become one of the top ten investment spots in the entire world.

2.2.2 Attractors and Obstacles to the inflow of FDI to Saudi Economy

In the opinion of Al-Iriani and Al-Shamsi (2007) FDI in Saudi Arabia has increased significantly over the past few years. The government has marshaled different plans aimed at attracting more foreign investors. Government's goal of creating several income sources other than oil has been the major drive behind FDI. Other motivations that have driven foreign investments include technological transfer, empowering of manpower, creation of more job opportunities and strengthening of the private sector.

In the opinion of Aleqt (2006) there exist several challenges and problems which have had adverse effect on foreign investment. Beginning from 2005, several developmental strides have been geared towards making improvements in foreign investment in Saudi Arabia:

1. The Kingdom has laid out plans to develop commercial courts, employing more judges who will help hasten cases pending court hearing. This is the most salient point raised by General Investment Authority in a report it submitted to the council of ministry as parts of the requirement needed to improve the situation of the country.

2. The Ministry of Foreign Affairs have mandated embassies to issue out visas to investors in less than 24 hours. Added to this, the ministry has also approved the issuance of visas right from the airport to investors coming from some designated countries.

3. Ministry of Finance has slashed the tax on profit from 45% to 20%, while also losses to be deducted within the time companies had financial difficulties.

4. The country has gone a step further in increasing capital loan funds, particularly funds meant for industrial development, increasing its lending capacity. Interestingly, the loan provided by the industrial sector has exceeded that provided by other Arabian countries.

5. The Ministry of Justice has conducted trainings for judges who preside over investment regulations. The Ministry of Interior has provided trainings to immigration staffs working at airports so as to empower them to provide the needed services to investors.

6. The Ministry of Commerce in collaboration with Industry, have reduced the processing time for documenting industrial licenses. They have also gone a step further in time needed to go through documentations at the airport.

Hafiz (2009) has categorized obstacles hindering foreign investments to Saudi Arabia as follows:

1. Organizational and procedural based constraints

   These set of constraints have been further categorized into: 1) The difficulty in securing entrance work and investment visas 2) The length of time needed to issue and approve business licenses 3) negligence of the private sector in decision making process for foreign investment 4) The tardiness of customs in clearing procedures 5) the lack of sponsorship system.

2. Barriers of Legislation and Regulations

   Regulation and legislative barriers have been classifies as follows; 1) The length of time taken for the implementation of court verdicts 2) The legal system can't conveniently handle all commercial disputes 3)Lack of regulation to prevent importation of fake items 4) the bureaucratic nature of the legal system 5) the absence of property right.

3. Insufficient information system

   Insufficient information system has been further classified into 1) lack of information regarding market size 2) insufficient updated information regarding the existence of opportunities in local market.

4. The effect of cost on private investment

   This has also been broken down as follows: 1) Insufficient well trained administrators in the market 2) the high cost of energy, fuel and electricity 3) increased cost of manpower training 4) high cost of labour

5. Restrictions imposed by economic policies:

   Below are some factors that have contributed to restrictions by economic polices: 1) galloping inflation rate 2) presence of inappropriate infrastructure

The arguments above are clear indication that the government has been relentless in its effort to improve FDI. Other than facilitating all required document, standard tax on foreign investments has been reduced. However, it is needful for the government to effect meaningful reforms so as to meet up with the demands of foreign investments across the globe.

2.2.3 Methods for Entering Saudi Market

Lo, Chiao and Yu (2010) were of the view that the means by which FDI enters a country affects the host country. Often times, foreign companies choose flexible systems which is in the harmony with host countries with emerging markets. It has been observed that government regulations bear great influence on FDI.

Grosu (n.d.) made it known that foreign companies often turn to strategic alliance such as acquisition and mergers, when entering a new market, as doing so increases their competencies and fixed assets. Mergers and acquisitions have become very common amongst foreign companies, as such partnership allows them adapt with the ever increasing cost of doing business. Partnering with local companies reduces the risk foreign businesses are exposed to.

Brucellaria (1997) observed that strategic partnership when successfully implemented will help them achieve their goals for FDI. Such alliances also go a long way in improving their competitive edge while enhancing business efficiency.

Abdel-Rahman (2010) divided the method for coming into Saudi Market by foreign investors as follows; Greeenfield, joint ventures and investment contracts done collaboratively with the government. Joint venture has become the most common means of entering into Saudi Market, already being in place before FDI law was passed in 2005. This regulation was more like greenfield system practiced in Saudi Arabia. In the view of Abdel-Rahman (2010) Saudi Market hasn't been accustomed yet to joint venture system. Equity joint venture which is more familiar in Saudi Market, gave investors a free hand in delivering technical expertise and equipment, concurrently creating an opportunity for local investors to offer finance, property and local equipment.

2.3 Political Factors

In this section, the impact of political factors such as revolution, terrorism, and external conflicts shall be discussed.

2.3.1 Terrorism

The general definition of terrorism is violent actions done to inflict fear upon people. Terrorism is also used to describe several other acts which could either be violent or non-violent, particularly after the incidence of 9/11. Acts of terror are carried out both during conflict and peaceful time. Terrorism has the potent to disrupt national and global economies, further complicating business environment (Conte, 2010).

In the view of Gold (2004) the cost of terror on communities and the country at large, is very huge. This cost is often evaluated based on damages and losses incurred when terrorist group strikes. The direct cost is evaluated based on the drop in market value due to fall in production level which is as a result of loss of human lives and input resources. It also cost money to contain the activities of terrorist groups, and this adds to economic cost. Whenever a community comes under threat, companies and government find themselves spending money in beefing up security.

2.3.1.1 Effect Global Terrorism Has Had on the Economy of Saudi Arabia

Almeshal and Albahoth (2004) have identified a number of effects both positive and negative which terrorism has had on the economy of Saudi Arabia. The negative effects which have some similarity with 9/11, having a direct and indirect effect, are classified as follows:

1. Increased speculation within the real estate sector

   There exists some form of capacity limitation in Saudi economy which has made it difficult for national money to be held. The end result of this is speculation within the real estate sector. Added to this, this effect is more felt in the local market where money is invested. There is a good chance that the greatest of this negative effect, is the inability of real estate investors to access investment opportunity, thus cutting them out from community development projects.

2. Slow economic growth

   The pegging of the Saudi economy against US economy (being Saudi largest business partner, with Japan and Europe tailing behind) has created some weakness in Saudi economy as whatever happens to US will definitely affect Saudi Arabia. Should the US economy suffer recession, Saudi economy will be greatly affected. This has been a major reason behind the tardy growth experienced by Saudi Economy. Added to this, the US dollar has been the major currency used in oil business, with oil accounting for 89% of Saudi's export. Saudi economy has long been known for low GDP growth rate even amidst growing population. Between 1995 and 1999, the country's GDP grew by only 1%, while the population was growing at a rate of 3.5% within this same timeframe.

3. Fall in the value of foreign investment assets

   The financial value of assets owned by the government fell for a number of reasons which include:

   - Crash of US stock market which led to the folding up of most internet based companies
   - Decline in real estate market
   - Deposits within US banks being frozen\

   The amount of Saudi's government funds held in US banks is estimated to be between 100 and 400 billion dollars. Estimations made by Arab Institution for Investment Guarantee revealed that the lost incurred by the government in foreign investment assets stood at $400 billion.

4. Interferences within local Saudi Economy

   These frequent interferences are carried out mostly by international institutes with the goal of finding our all document and data containing details of bank account of individuals and organizations that are believed to be sponsoring terrorist activities.

5. Adverse effect on charities

   This includes the effect on humanitarian and advocacy programs which are considered as charitable sectors within the Kingdom. There have been some restrictions and suspicions towards charity programs. The result of this has been the decline of this sector both locally and in the international scene. This development has caused companies and organization to withhold funds which they gave to charities. These funds are used to avoid liquidity problems.

In the view of Aleqt (2008) the positive effect of terrorism when considering the 9/11 event, can be classified as follows:

1. Return of Capital

   The terrorist attack on US in September 2001, has brought about resettlement of Saudi Capital, with some being returned, while the others are held tight so as to ensure they don't leave the shores of the country. Following the 9/11 attack event, focus has now being on security and not profit, and both principles have been influential in the moving of capital. This has left investors with no choice but to seek safe markets for their investments even if such markets offered very little profit. This mostly occurs during times of crises

2. Recovery of financial markets

   The 9/11 event has brought about the distribution of investments all across the world. This trend can be seen in Saudi Stock market whose index grew significantly. The result of this is increased capital flow and hence more liquidity. It was discovered that Arab investors have invested over $150 billion in the market and this is equivalent to 50% of the entire Saudi Capital. However, not everyone agrees that the growth experienced by Saudi stock market has been as a result of returned capital. This is because substantial part of this returned money was channelled into the real estate, which investors often prefer due to the safety it offers.

3. Expansion of the tourism sector

   One major benefit of international events has been the resettlement of tourism. It has been observed that Saudi tourist now prefer what local tourism has to offer even though most could still afford foreign tourism. This has spurred growth in local tourism. Several festivities have come alive within Saudi Arabia within the past few years. This has been as a result of change of orientation among Saudi tourist. According to estimates coming from research centre and tourist information of the Supreme Commission for Tourism (MAS) tourists spend about 5.63 billion riyals on local and foreign tourism every year. Furthermore, tourism accounted for 6.4% of the gross GDP in 2002, and this translates to 2.32 billion riyals coming from tourism which was added to gross GDP which stood at 698 billion riyals

4. Accelerated development of most systems

   Following the 9/11 event, there has been increased implementation of domestic reforms such as the issuance of insurance within the financial market. Added to this, lots of telecommunication companies were launched, and lots of government owned facilities were privatised. This has led to the creation of open investment channels within new markets due to economic reforms implemented previously. The September event has been a major reason for this.

5. The swift reaction of western government against waves of terrorism:

   This has further complication of international relationship, leading to increased tension in the Middle East due to wars in Iraq and Afghanistan which culminated in the suspension of oil production in Iraq. It also brought about decline in oil production in Venezuela and Nigeria, with both countries experiencing frequent strikes amongst oil workers. This has also brought about low oil inventories in the US, with pressure being mounted on oil prices. All this has been as a result of swift action of Western Government which has led to increase in oil prices. Oil price grew by 5.5% from 2001 to 2002. Added to this, increased tension across the globe pushed oil prices to $126 in 05/19/2008 as against $22 for which it was sold for in 2001.

6. The development of high oil prices

   This has brought about increased revenue for Saudi Arabia, hence stimulating economic growth. The general budget as well as trade balance recorded a surplus for the first time in 20 years. The total surplus which was recorded in 2005 stood at 217 billion riyals which equates to 18% of GDP. Saudi Arabian Monetary agency speculates that total surplus will hit 405 billion riyals in 2008. This development has been of great benefit to the country, as it has helped solved the debt problem which has been confronting Saudi Arabia for some years now, which at 1999 stood at 119% of GDP, exceeding international standard of 60% of GDP. This surplus has been used to offset public debt, causing it to fall to 267 billion riyals in 2007, representing a 27% drop from 2006. Currently, the ratio of Public debt to GDP stands at 19% as against 119% which it was in 1999.

2.3.1.2 Terrorism and FDI

Abadie and Gardeazabal (2007) were both of the opinion that foreign investment often flows to countries going through peaceful times. However, terrorism has affected FDI negatively all across the world. It has become evident that terrorism bears a major effect on FDI decisions.

The Global Business Policy Council (2004) has investigated the effect of terrorism on FDI. It was found that terrorism affects the decision of foreign companies to either enter or exit a market.

Yamani (2010) observed that terrorism affects the social life of people. It has bears great weight on the economy. The adverse effect which terrorism has had on the economy and FDI can be classified as follows:

1. Reduced the potential the local economy has for attracting foreign investments, because terrorism drives away foreign investors no matter whatever benefit they stand to enjoy. Furthermore, favourable economic programs will become null and void in attracting foreign investors when a country is plagued by terrorism.

2. Terrorism causes a society to loose foreign expertise and well trained manpower. The effect of this can be felt in different areas such as Universities, hospitals, research centres and privately owned organizations.

3. With inflow of FDI falling due to terrorism, there will be a rise in rate of employment, with training and rehabilitation for local employees declining.

4. Decline in the development of communities as money that would have been spent in developmental projects will then be spent in the fight against terrorism. Funds that would have been spent constructing roads, erecting schools and hospitals, will then be used in the fight against terrorism, and this will definitely hamper development programs.

5. Sectors such as the tourism sector are affected directly be acts of terror. Whenever the tourism sector suffers, the entire economy does as well as the will be reduced investment opportunities and jobs.

When evaluating the impact of terrorism on the economy, it is important for all direct and indirect effect to be taken into consideration. This should encompass all private sectors involved in production. Furthermore, measurement standards should be seen from different perspectives such as number of jobs that will be lost as a result of terrorism, the decline in job availability, the rise in production cost, the amount of decline in sales volume, profit levels, volume of capital flowing out of the country etc. (Yamani 2010).

Aldukheil (2004) after observing the political and social conditions came to the conclusion that all this has been as a result of the involvement of Saudi citizens. Foreigners have most times had a negative view of Saudi Arabia both in its leadership and public setting. The discrimination often encountered by foreigners whose right are frequently violated, has weakened efforts on the part of government to attract foreign investment. As if this isn’t enough, explosions experienced in Riyadh, with foreigners being the prime target has worsened the problem, and this has increased the sense of insecurity amongst foreigners coming from the US and Europe. It has also been observed that foreigners have limited access to education and healthcare facilities. This trend on its own has obstructed the further inflow of foreign investment, which has been anticipated to remain low (Aldukheil, 2004)

On the other hand, Abu Fatim (2003) was of the opinion that Saudi market is the largest in the entire Middle East, with consumer purchasing power hitting 700 billion riyals per year, and this has created the needed support for commercial transaction within the country. This growth has spurred increase in the demand for real estate, which is valued at over 60 billion Riyals per year.

The growth which this sector has experienced has been as a result in change of orientation among the citizens which has brought about economic expansion within the Kingdom. There is a clear indication that terrorist attack hasn’t had so much effect on foreign investment. The economy has been blossoming due to certain economic and financial policies implemented by the government. Financial liquidity in the market has created support for different sectors of the economy. The challenges that confronted Saudi Arabia this year with terrorist attacks being the most prominent, hasn't prevented the qualitative growth of Saudi economy, with growth rate expected to hit 4%. In past years, investors had to move their capital to other markets that offered high returns (Ibid)

During these years, the local markets had evolved significantly, offering foreign investors very low interest rates measured in dollar and Euro. For instance, interest rate in dollars dropped by 1.25%. In addition, bold security moves undertaken by Europe and America scared away foreign investors who had to stay away from Saudi Market. This led to the increase in liquidity within the local market, thus making Saudi Arabia an excellent investment destination, offering high returns and more investment opportunities to investors. (Ibid)

There is no doubt that activities of terrorist have had a slight effect on the economy of Saudi Arabia. This caused some struggle in foreign investment sector for some time. However, the impact of this was only limited to very few sectors, as the government of Saudi Arabia was quick in reacting to the activities of this radical group, and this move went a long way in securing foreign investments, thus creating a conducive atmosphere needed for more investments.

2.3.2 Relationship with Iran

In the view of Abed (2010) Iran which is a neighbor to Saudi Arabia and other Gulf countries, has related demographics with these countries and this has brought about cultural cooperation, trade exchanges and similarity of civilization. The Gulf Cooperation Council have made several request to Iran, demanding that she respects international convention which stipulates that respect should be shown to all neighboring countries so as to create stability and security. However, the radical approach undertaken by Iran which led to the occupation of islands of UAE, has led to the use of force in restoring balance within GCC countries which had before now being in non-existence because of the arrogance of Iran. The resolute stance of Iran to some gulf countries can be attributed to the difficulty of Iran in striking military alliance, with most Gulf States choosing to seek military alliance and bilateral defense with western countries.

Furthermore, Iran plays a significant role for the Strait of Hormuz, being centrally located on the strait which has links to three islands of UAE. Iran has exercised significant control over shipping lines used in the exportation of oil as 76% of exported oil coming from Saudi Arabia and other Gulf countries passes through the Strait of Hormuz (Abed 2010)

In conclusion, Iran has been help in apprehension as a result of the frequent interrogation into its peaceful use of its nuclear program. The end result of this is the increase in Iran's production capacity for plutonium which it puts to use for its nuclear program.

2.3.2.1 The relationship Iran has with FDI coming into Saudi Arabia and other Gulf countries

Reports obtained from "Disagreement between Iran and the West will not hinder the flow of investment to the Gulf" has proven that the tensed relationship between Iran and some western countries, haven't affected the capacity of oil producing countries (GCC) to attract foreign investment. This is because of the stability and high liquidity already present in these countries.

It was also stated in the report that the Gulf region will be least affected by any change to this condition. If for any reason it is believed that Iran will go to war, then there will be a decline in developmental projects. Most of the foreign capital that enters into Gulf region are meant for financing and investing, and so more banks keep coming into region due to high growth rate in the commercial sector (Aleqt 2007)

Furthermore, it has been mentioned in Aleqt (2007) report that Gulf States have been flooded with foreign capital, with most of them coming from international banks of western countries whose aim for entering the market is to provide financing for infrastructural projects. It has been anticipated that Gulf States will spend billions of dollars in subsequent years. It can be seen that countries like South Korea where nuclear program is actively pursued foreign direct investment hasn't been affected. It can then rightly be said that the nuclear program being pursued by Iran, will in no way hamper the capacity of Gulf states in attracting foreign investments from foreign countries. The basis for this argument is the high economic growth rate experienced by GCC countries.

After reviewing the report of Aleqt (2007) Al Barrak went on to confirm that tension that exist in the relationship between Iran and Western countries of the world will not be an obstacle in attracting foreign investment to the Gulf region. Other than high economic growth, Saudi Arabia in particular has enjoyed political stability. Most foreign investors are seeking for investment opportunities, and will swiftly seize upon it whenever the opportunity surfaces. However, there are some investors who will chose to wait for a period of six months before deciding if they really want to come invest in the Gulf region. It has become evident that the economic condition of Gulf States has been stable, vibrant and impartial. This is particularly true considering the admittance of the Kingdom, being a central state within the gulf region which acts as a mediator to other states.

Aleqt (2007) asserted that the reason for the tension in Gulf state has been due to the sharp disagreement amongst western countries concerning the nuclear program of Tehran, added to its refusal to halt uranium enrichment programs. Economists believe that the huge revenues coming from oil revenues which have been used in infrastructural projects, have brought about the diversification of Gulf States. This has counteracted whatever geopolitical instability that may arise at regional level.

The literature has shown that the conflict that exists between two countries often takes many forms, but trade and the economy is barely affected. Foreign investors have confirmed that their investment in this region hasn't been affected over the last 30 years. It can then be rightly said that political hasn't being given priority unlike other factors like regulatory and economic factors.

2.3.3 What will happen if Saudi decides to pursue nuclear program/weapon

Amlin (2008) believes that most industry watchers believe that Saudi Arabia will follow the footsteps of Iran in building up its own nuclear program as the two countries have had a history of protracted aggression. This happened after the Islamic revolution which took place in Iran way back in 1979, further increasing the tension between Saudi and Iranian relationship. Furthermore, this two countries have been central to Islam with Saudi Arabia being the capital of Sunni Islam, while Iran being the capital of Shia Crescent which is practiced in countries like Iraq, Syria and Lebanon, and this has created some sort of anxiety on the part of Saudi Representative who believe that further strengthening of Shia around will threaten the survival of Saudi Arabia. Government also worry that Iran is wielding power greater than Afghanistan, Iraq and Lebanon, and this can bear adverse effect on Saudi Arabia, as Tehran will most likely strengthen its relationship with Shia crescent practiced in the eastern part of Saudi Arabia, thereby causing revolts. Government is also worried about the effect Iranian nuclear program will have on the security of other neighboring countries.

Increased efforts by Iran in pursuing its nuclear programs can be seen in the increase tension witnessed in regions where Shia is practiced has Iran hasn't made clear its intension for its nuclear program. There is also fear that Iran's nuclear program will encourage terrorist activities within the region which will pose serious threats to Saudi citizens. However, there is no clear proof yet that Saudi Leaders are sure if Iran has been amassing nuclear weapons, but there stance may change if it happens that Iran has being doing so. (Amlin 2008)

Experts are of the opinion that Saudi Arabia won't pursue its own nuclear program due to sanctions she will receive if she decides to do so. Solingen (2007) opined that countries that are seeking opportunities to expand its market, while attracting more FDI, barely pursue nuclear programs. Doing so often creates tension between the country and the government of other countries.

Amlin (2008) suggested that Saudi Arabia will not pursue such programs due to high population rate and unemployment rates. However, the government of Saudi Arabia has implemented new policies and regulations aimed at attracting FDI into to country. Any attempt to pursue nuclear programs will counteract this move. Furthermore, the government of Saudi Arabia hasn't spared any effort in implementing reforms to the national economy, and these reforms are designed in such a way that it fits well into the requirements of World Trade Organization which was signed in 2005.

In the opinion of Bahgat (2007) the Nuclear Non-proliferation treaty coupled with the International Atomic Energy Agency has hindered Saudi Arabia from pursuing nuclear programs as Saudi Arabia was one of the countries that signed the treaty in 1988, after which it signed a comprehensive safeguard agreement in 2005.

Lippman (2008) was of the opinion that the decision to pursue nuclear armament program just like Pakistan and North Korea, is not really due to perceived political and economic sanctions.

It has become evident that such as case will adversely affect investments in Saudi Arabia, with most literature pointing out the negative effect acquiring nuclear weapons will have on Saudi Arabia. In conclusion, the next investigation will focus on both sides due to lack of studies that proves that nuclear program will have positive effect on FDI.

2.3.4 Arab Spring

Rogan (2011) asserted that no compromise has been done yet in identifying radical actions that have swept over most Arabian lands beginning in 2011. Most observers in the US and Europe has described this as Arab Spring. Most people in Middle East favor speaking of “Arab Awakening”, having strong backgrounds in domestic, legal and Islamic transformation which has started in the twentieth century. This is a clear proof that Arab countries have reached a major crossroad. The rejection of dictatorship which was first witnessed in Tunisia ended up finding its way to other countries in 2010.

However, countries in the Middle East often adopt different practices. For instance, while military personnel abandoned their post in Tunisia and Egypt, those of Libya and Yemen remained faithful to the government regimes then. Some insurgents were able to liberate certain parts of the town (Tahrir Square in Cairo and Sanaa University in Yemen). Demonstrations were barred by Syrian governments. It became evident that the revolution was mainly due to stringent local matter created by the Gulf Cooperation Council (GCC) spearheaded by Saudi Arabia into Bahrain and giving their support to the interference of Libya by NATO (Rogan, 2011).

2.3.4.1 Influence of Arab Spring on Foreign Direct investment

Kim (2014) made it known that several research have been carried out with the aim of finding out all key elements that affects FDI. For instance, Lucas (1990) argued that it is only civil risk that has the potential of affecting inflow of FDI. FDI coming into developing countries receive little protection from political challenges, but yet still managed to thrive.

Singh and Jun (1995) were both of the opinion that business environment as well as political risk has affected FDI inflow into countries that were once receptive to FDI. FDI was low in these countries primarily due to social-political variability. A nation's export capacity determines its ability to attract FDI.

Chan and Gemayel (2004) agreed that the grade of variability related with investment risk is a much more serious factor of foreign investment in the Middle East and North Africa region nations than it is for unindustrialized nations, which have lower level investment risk.

In the view of Abu Jamea (2013) economic, social and political instability which was as a result of the Arab Spring, resulted in increased uncertainty which made it difficult for the economy to be accurately predicted by foreign investors. Some studies opined that the instability experienced by Arab Spring countries led to the exit of foreign investments, with many investors retreating back to their countries. Some countries like Libya, Syria, Egypt, and Yemen suffered significant decline in the inflow of FDI.

These counties experienced increase in returns as foreign investments was subjected to economic, social and security instability. Though first starting in Tunisia, the whole world was held in shock as the Arab revolution found its way to other countries, disrupting social and economic balance. Between 2008 and 2009, foreign investment declined by 37% which is the equivalent of $1.1 trillion as against $1.8 trillion which it was in 2008. However, it has been anticipated that foreign investments will rise between 2010 and 2011. This was made known by reports submitted by Arab foundation for Assuring Investment and Export Credit, which asserted that there will be a reversal in the flow of FDI into Arab countries by the year 2011 (Ibid)

It has been observed that volume of foreign investments in the Middle East and North Africa fell from $43.22 billion in 2010 to $36.42 billion in 2011. This decline equates 16.5% decline within this period, as the share of Middle East and North Africa falling from 13% in 2010 to 8% in 2011. Following restoration as witnessed in 2012, caused foreign investment in the Middle East and North Africa to climb back to 43.81 (Ibid).

Most of the foreign investment was channeled into the Gulf region, particularly in Saudi Arabia, with the volume of foreign investment reaching $29 billion in 2011, as revealed by Saudi Arabian Monetary Agency and International Monetary Fund. In the same vein, indication provided by business environment and issued by World Bank group, placed Saudi Arabia as on the top investment destination among other Arab countries, with UAE and Qatar following closely.

Arab Spring has had varying degree of impact on different sectors of Saudi Market, with FDI fluctuating slightly at the start of this event. The literature have proven that there has been a negative and positive side, with positive effect being more felt due to economic stability of the regime. More investigation will be needed to find out the real effect.

2.4 Economic Factor

Previous studies and literature conducted to study macroeconomic variables as well as currency situation shall be presented and reviewed in this literature review. Added to this, all relevant economic variables that affect FDI shall be part of the discussion.

2.4.1 Macroeconomic Variables

In the opinion of Haj-Kacem (2014) economic growth has always had a positive correlation with developmental strategy, and so it can be rightly said that increase in GDP has brought about improvement in living conditions. However, there have been some changes to this view as GDP has contributed to expansion of different sectors. In East Asia for instance, expansion in GDP has led to the improvement in quality of living, but failing to improve living conditions in South Asia.

Guisan and Neira (2006) were of the opinion that economic variables such as human capital, manufacturing, population growth have no bearing on economic growth.

Murinde and Eng (1994), Demetriades and Hussein (1996), and Levine and Zervos (1998) were all of the opinion that development being witnessed in the financial market, has increased liquidity level in the country.

Razmi and Behname (2012) asserted that there have been new divisions of Macroeconomic literature regarding FDI, primarily being centered on capital cost and industrial economics. It has also become evident that FDI will seek local markets that offer less business cost.

Chakrabarti (2001) has studied the effect of variables such as accessibility of market, tax, salary, and economic growth on FDI. It was found in the study that these variables bear substantial effect on foreign direct investment. Schneider and Frey (1985) have observed how inflow of FDI relates with economic and political aspect. Economic and political factors are big motivators for FDI.

To investigate the effect of factors on FDI, Shahabadi and Mahmoudi (2006) had to make use of regression analysis in studying the case of Iran starting from 1959 to 2003. FDI depended on certain elements such as economic liberty, capital returns, infrastructure, natural and human resources, financial situation of the country, inflation, external debt, stability in economics and politics and then government expenditure. Akin (2009) was of the opinion that investors often stay away from small markets in developing countries due to the low returns they offer. Even though GDP per capita can't be considered a major yardstick in measuring FDI especially in developing countries, population and GDP rates affect the activities of FDI. This is a clear proof that FDI is concentrates more on market size of developing economies rather than per capita. Foreign investors prefer doing business in countries with high purchasing power, instead of developing countries.

Khachoo and Khan (2012) have examined the effect of total reserve on the inflow of foreign investment. In the study, it was discovered that countries with large reserves often attract FDI the more. The more reserves a country accumulates, the greater its chances of attracting foreign investment.

Razmi and Behname (2012) found out that balance in trade bears significant effect on FDI. The larger the export volume, the more FDI will be attracted. It was also observed that FDI in developing countries as placed into vertical investment category, thus creating a complementary connection between the two variables. The relationship between these two variables has been speculated to be positive.

It can then be seen from the literature above that macroeconomic variables play a significant role in attracting foreign investments. These variables have both direct and indirect relationship with FDI, although the more an economy improves and diversifies, the greater its chances of attracting increased FDI inflow. In the course of this study, researchers have tested the effect of all the variables on Saudi Market and how they affect inflow of foreign investment. The above literature has given a detailed analysis of the effect of macroeconomic variables like GDP, inflation and unemployment on FDI.

2.4.1.1 Gross Domestic Product (GDP) and FDI

FDI plays an important role in the economy of the host country, improving the country's economic productive capacity, thus causing growth in GDP. However, it is needful for import production factors to be excluded when measuring GDP rate (Sandalcilar and Altiner, 2012).

Walsh and Yu (2010) were of the opinion that macroeconomic model plan should take into consideration opening market, GDP rate, GDP per capita, inflation rate recorded within the last 3 years, and FDI stock. Using unrelated variables to run the same plan, did not affect key result. Conclusion can only be reached when extractions have been made from FDI, nominal GDP, fixed capital, and sometimes regression.

To determine if FDI spurred growth in an economy, Jyun-Yi, Wu and Hsu Chin-Chiang (2008) had to make use of regression analysis. In a study conducted between 1975 and 2000 which examined 62 countries, it was found that FDI play uncertain role in the growth of an economy. It became evident that GDP and human capital are the main factors that influence the attraction of FDI.

Farkas (2012) has to use regression analysis in determining the influence FDI had on GDP. It was concluded in the study that FDI affects the GDP positively, helping an economy expand its productive capacity, while also improving financial and human capital. Hameed and Bashir (2012) conducted an investigation into the economies of Middle East and North Africa to determine the effect of FDI on GDP through the use of econometric tests. It became evident that FDI brings about economic growth though this will depend on the region and time. It was also discovered that FDI is affected by local investment and access to international market.

Borensztein, Gregorioand Lee (1998) investigated the relationship FDI has with economic growth through the use of cross-country regression analysis. The study made use of data obtained from 69 industrialized countries (1970 to 1989). The result of the study proved that FDI provides the right platform for technological transfer, adding more value to the country's investment. However, FDI can only add considerable value to the GDP of a country provided that there is appropriate technology and availability of trained manpower.

Razmi and Behname (2012) were both of the opinion that the concept of "market access" has captivated FDI researchers for some years now. This element plays a vital role in attracting foreign investment. It has been observed that countries often enjoy rapid GDP growth when they have access to markets. The bigger the market, the bigger the foreign investment. Variables such as cost, economic stability, tax, wage and trade liberty bears great influence on FDI. When compared with the market size, the effect of these variables is significant. It can then be said that national GDP is dependent on market size, and as such created a link between FDI and GDP.

Joharji and Starr (2010) and Alshahrani, and Alsadiq (2014) were all of the opinion that the massive spending embarked by Saudi government has affected the economy especially non-oil sectors positively.

Generally speaking, economic growth impacts different sectors of the economy positively. It can then be said that the most influential factors on inflow of FDI are; market size, human capital, opening of the market, market liberty, and technology. Other relevant factors include trade regulation and market liberty, even though their effect is minute. FDI brings about expansion of an economy, and so can be considered and influential factor for a country's GDP.

2.4.1.2 Inflation Rate and FDI

According to Niazi et al. (2011) inflation has been the reason behind the increase in money flow in an economy. In the meantime, inflation is used to describe the tendency of price of commodity to rise, which is then accompanied by rise in wages.

After examining the consequences of inflation on economic growth and FDI, Omankhanlen (2011) after using linear regression analysis validated the effect of inflation rate and exchange rate on the FDI inflow. After analyzing all data gathers in a thirty years period, Omankhanlen came to the conclusion that inflation rate has only had minor effect on FDI. Exchange rate on the other hand has had its effect on FDI.

It has been observed that a country with a robust economy often have low inflation level. High rate of inflations indicates that the government of the affected country has very little control over its financial system, with control resting majorly with the banks. Before arriving at a decision, foreign companies often take into consideration fluctuating exchange rate. Fluctuating exchange rate often affects FDI negatively. It can then be rightly said that high inflation rate will lead to decreased FDI and vice-versa (Neranda 2014). Inflation also bears a negative effect on tax planning, which in the end will affect anticipated returns on investments. Inflation rate which is often volatile in nature creates some form of uncertainty, thus hampering long term infrastructure project (Borensztein et al. 1998).

It has been observed that there exists some form of gap in every effort to determine the effect of inflation rate on foreign investment coming into a country. Though most literature have examined the negative effect of inflation rate on investment, the likelihood of an investment moving into a destination where the government has very little control, is small. This study will investigate the relationship these factors have with FDI in Saudi Arabia.

2.4.1.3 Effect of Oil Prices on FDI

Ng (2010) observed that FDI inflow into oil producing countries is often way different from that of non-oil producing countries. Between 1990 and 1991, FDI inflow declined by 25% all across the World, while oil producing countries experienced 132% increase in FDI at the same time. More also, FDI grew steadily between 1993 and 1998, but oil producing countries experienced 12% decline in 1993 and 19% decline in 1999. Of recent, FDI which stood at USD 1.98 trillion in 2007 fell to USD 1.7 trillion signifying a 5% decline. It can then be said that GDP isn't sufficient in evaluating inflow of FDI globally. Owing to the fact that FDI inflow into oil producing countries has been different from that of non-oil countries, it is imperative for several other variables to be taken into consideration when evaluating FDI inflow.

Yazdanian (2014) was of the opinion that the major reason behind the failure of some countries to attract FDI, has been the over dependence on oil. Other than this, there are some other factors that impede the inflow of FDI and they include:

1. Availability of natural resources has caused the government to adopt the wrong approach in directing the economy. In the end, oil countries have failed to take into consideration economic principles like open trade which bears great influence on foreign investment and economic growth. Furthermore, the government of these countries have failed to adopt long-term economic program and this has brought about low performance.

2. It has become evident that government of oil producing countries have paid little attention human capital development which has played a big role in attracting FDI.

3. Based on the concept known as Dutch disease, the wealth which the oil sector has created has caused the price of non-exchangeable goods to rise. This has caused the sector of exchangeable goods to shrink thereby causing decline in the export sector.

4. Studies have shown that oil producing countries often resort to rent-seeking behaviour which affects the economy negatively. Such behaviour often leads to disruption in resource allocation, collapse of production activities, fall in economic efficiency, stunted economic growth and social inequality. These are some of the key factors that affect FDI.

5. Fluctuating oil prices affects essential needs, thus causing distrust among investors in the host country. When this happens, the risk of doing business increases and the final result will be reduced inflow of FDI

On the contrary, Khusanjanova (2011) after studying the effect of FDI on oil producing countries discovered that within the last 20 to 30 years, industrialized countries have experienced increased FDI inflow. They were able to achieve this feat after setting up the right climate for investment while also creating the legal framework that could attract more investors.

Researchers are of the opinion that developing countries with abundant natural resources barely depend on FDI as an alternative means of income. However, modern economic models have it that fluctuation in oil prices often lead to instability in the economy, which will in the long run affect long term development projects especially for countries that depend mainly on government expenditure. Added to that, increasing price of oil improves the economy of oil producing countries, and this has a way of attracting more foreign investment as FDI is often attracted to countries with sound economic growth.

2.4.1.4 Effect of Unemployment Rate and level of Education on FDI

Borensztein et al. (1998) after conducting an investigation on 69 developing countries between 1970 and 1989 observed that countries with the right technology and human capital often enjoy the most from FDI. Estimations have it that 4.5 years of secondary education is all that is needed in getting integrated with foreign technology.

It has been found that FDI has close links with higher education. Apart from awarding scholarships and educational support to employees of their host country, foreign companies have been actively involved in the development of schools and universities. According to UNCTAD (1994) multinational companies need the skills of graduates with business and science degrees, and have gone a step further in providing assistance to curriculum review committee, senates and advisory consultants.

Majeed and Ahmed (2009) were both of the opinion that human capital is an essential factor that influences FDI. This is why foreign companies often take into consideration the availability of skilled labor before making investment decisions. Though human capital barely affects the inflow of FDI directly, it affects it indirectly by improving civil rights, corruption rates and welfare.

In the same vein, Alamri (2011) estimated that the amount of FDI that came into Saudi Market from 2006 to 2010 stood at 462 billion riyals. However, the profits accrued from foreign direct investment as estimated by national economist, has declined considerably. Furthermore, Saudi Monetary Agency has revealed that even with the accumulation of foreign investment, no noteworthy development has been observed yet in both the national economy and manpower development. It can then be said that there has been an outflow of trained labor out of the country and this has resulted in a loss of 57.3 billion riyals recorded in

2006, climbing to 96.3 billion riyals in 2010. Economic losses rose from 9.5% in 2006 to 14.1% before the end of 2010.

It has been observed that foreign investment requires well trained labor for its operation. It is through education can available manpower be improved upon. However, this can become a major hindrance for Saudi Arabia due to the fact that the country practices conservative form of education which was used in time past. Recently, changes have been made to the educational system to make it meet up with the demands of the modern day. This literature hasn't investigated the effect of unemployment on FDI. This can only be determined through research which will investigate the impact of unemployment on Saudi Market.

2.4.1.5 Relationship between the Agricultural and industrial sectors with FDI

It is only a small portion of foreign investment that is channeled into the agricultural sector of a developing country. FDI which has flown into the agricultural sector though being small has continued to decline in some countries (FAO, 2013). On the contrary, FDI coming into the agricultural sector of developed economies have increased due to a number of factors. Though this growth is small when compared to financial sector, it has brought about the allocation of lands meant for agricultural activities.

In the opinion of Liu et al. (2013) FDI coming into the agricultural sector hasn't exceeded 8% globally since 1980. FDI coming into the agriculture sector fell to 2% between 1996 and 2000 and this has been the lowest recorded so far. However, this figure increased between 2006 and 2008 finally hitting 4.6%.

Between 2005 and 2007, FDI coming into the agricultural sector was 1% for 17 developing countries and 2% for 7 other countries (Heumesser and Schmid, 2012).

FDI has improved greatly in the agricultural sector of host countries more than the oil and gas sector. In countries like Nigeria with large oil deposit, most foreign companies chose to go into oil exploration, with no major Multinational company investing in the agricultural sector of the country. One reason for this is that it takes a lot of time before investors can realize profits on their investment when investing in agricultural sectors, unlike oil sector which offers quick investment returns. (Adewumi et al. 2006).

In Zimny (2009) explanation, the reason why foreign investors pay little attention to agricultural sector is that the number of agricultural projects is limited unlike others like infrastructure where one project alone can run into billions of dollars.

Another reason Zimny (2009) identified for low FDI activities in the agricultural sector in developing countries have been limitations in favorable climatic conditions and availability of arable lands. Most countries pay little attention to their agricultural sector, and this on its own has hampered the inflow of FDI into their agricultural sector. These countries have created restrictions and barrier to the inflow of FDI through the creation of ineffective rules which often fail to address land issues, and this has created some form of risk to foreign investment due to political and social conflicts.

For the industrial sector, researchers argue that effect of FDI is largely dependent on the collaboration between the host economy and the industry. Heckscher-Ohlin model, Kojima (1973) estimated that foreign investment in developing countries can only grow if more attention is given to intensive labor and less to technological sector. The effect of the difference in technology between foreign and local businesses is negligible. As a result of this, there have been high technological spillovers into local businesses. On the other hand, Dutt (1997) who used an improved version of Keynesian model, studied the trend in technological transfer (excluding technological spillover locally) can to the conclusion that

FDI can only aid economic growth in developing countries if capital can be channeled into technological industries. The reason for this claim is that making improvement in the technological sector in developing countries will cause a decline in the price of exported goods, eventually leading to decline in terms of trade.

Markusen and Venables (1999) after using a partial equilibrium model were able to link foreign companies with domestic suppliers whose inputs decreased business cost for local businesses. Furthermore the incoming of local companies will go a long way in developing the industrial sector. Haaland and Wooton (1999) who though couldn't draw a conclusion on the effect of external factors were able to establish a comparable model which concentrated on the conclusions. The inflow of foreign companies increases the availability of domestic products, with new businesses springing up whose collective contribution will sharpen the competitive edge of the industrial sector, while also reducing production cost. These activities have the capacity to attract foreign investors into the host country, thus increasing national income. It is for this reason that the host country gets motivated to give support to FDI unlike other countries that have the same competitive power.

It has been observed that an industrial economy offers more investment opportunities to foreign companies. Foreign companies often channel their attention to the industrial sector due to high technological advancement and low material and labor cost it has to offer. Such environment often creates a competitive market between foreign and local companies who will then have to compete for export sectors. On the contrary, the agricultural sector has been ineffective in attracting foreign investment and the reason for this has been low returns on profit as well as harsh investment climate and government regulations. This is particularly true for Saudi Arabia, being a country with lots of desert lands. This research has found that the industrial sector tops the rank amidst the sectors targeted by foreign companies in Saudi Market.

2.4.1.6 Military expenditure and FDI

Al-Jarrah (2005) investigated the relationship military spending has with economic growth between 1970 and 2003. It was found that high military expenditure brought about a collapse in economic growth.

In the opinion of Benoit (1978) military spending has the capacity to bring about growth in the economy when the Keynesian multiplier model is used particularly during times of high unemployment rate. In the view of Keynes, increased spending often leads to economic growth due to increasing demand. When this happens, capital stock will rise, which in turn will bring about increased profit which is what foreign investors are always on the lookout for. This is a clear proof that short term multiplier effect impacts economic growth.

Benoit (1978) is in agreement with this, arguing that increased military spending military spending which leads to improved human capital due to increased level of education especially in countries with high military skills. Some external factors determine the increase of military expenditure during times of peace. A country usually increases its military expenditure when trying to defend its citizens from internal and external conflicts and this brings about the right investment climate needed for foreign investors.

However, setting aside certain amount of the national budget for military spending is sometimes indicative of instability which leads to reduced government spending and waste of natural resources. Furthermore, any ambitious planned geared towards procuring military weapon often strains the relationship that exists between countries. It can then be said that military spending affects FDI negatively. In developing countries, sectors that are considered as being strategic and relational to the military or authority are often targeted by nationalist policies. These authorities have the tendency to alter social and private returns, which will eventually lead to fall in efficiency of FDI (De Mello 1999).

The literature above has proved that military spending benefits the economy my motivating growth through increased demand. Researchers are of the opinion that the case of Saudi Arabia is different. The country has always looked to foreign companies in meeting its needs for weapon production and also providing training for soldiers, even though these moves hasn't added much value to the economy. Researchers have then come to agree with De Mello (1999) concept regarding the effect of military spending.

2.4.2 Fixed Currency

Albuquerquw, Loayza, and Serven (2005) have observed that flow of foreign capital into any country depends on the economic situation of the country as well as level of development. Abadie and Gardeazabel (2007) were of the opinion that the stock market has been the major source of FDI. However, foreign companies that deal with the stock market often find themselves having dire need for financial services. So before arriving at a decision, an investor will first take into consideration the financial and banking condition of the host country, as doing so will help determine how the investment will be affected.

In the opinion of Campa (1993) some form of risk exists for every foreign investment. Exchange rate and fluctuations are variables that pose the most risk to FDI. To minimize the risk their investments will be exposed to, foreign investors often stay away from countries whose economy is very volatile.

When Saudi economy is taken into consideration, it can be seen that terrorism has affected certain sectors of the economy. The exchange rate of the Saudi Riyal has fallen against major currencies of the world. The situation still hasn't improved even after the riyal was pegged against the US dollar basically due to US invasion of Iraq and Afghanistan, two events which caused the dollar to fall by 35%. The decline in the value of dollar has caused decline in the value of the riyal as well. This set of activities has had a negative effect on balance of payment, causing the revenue accrued from export to drop. This means the depreciation of the dollar has had double negative impact. In a study prepared by World Bank (SAMBA) Saudi Arabia lost more than 4 billion riyals between 2003 and 2004 due to the depreciating value of the US dollar. It was made known in the same report that Saudi economy will still lose a further 30 billion due to the declining dollar which started in 2003 (Aleqt 2008). In a press statement, the Minister of Petroleum was quoted as saying "The exchange rate of the dollar impacts the purchasing power of oil producers of OPEC," when expressing his concern for the declining dollar.

The decline in the value of dollar has also brought about the fall in the value of government assets especially those stashed abroad. According to reports provided by Saudi Arabian Monetary Agency (SAMA) the value of the country's foreign assets dropped by $301 billion in 2007 alone, while investments executed by Public Investment funds dropped by $214 billion (Aleqt, 2008)

In the opinion of Almeshal and Albahoth (2004) the reason for this decline has been the pegging of the Riyal against the US dollar. The decline in the value of the dollar has affected the economy of Saudi Arabia in more than one way, such as increasing the cost of products sold within the markets of Saudi Arabia. Theoretically speaking, this move will lead to increase in export, while causing decline in import eventually leading to restoration of trade balance with other countries excluding the US. But this theory has lots of limitations as it failed to take into account the flexible nature of demand. Demand for imported and exported goods has always changed with changing price of commodity. Furthermore, the dynamics of time has also led to declining exchange rate and has so caused an increase in the cost of exportation. For improvements to be effected to trade and balance, it is needful for there to be increase in export while a decrease in imports.

During times of decline of the dollar, Saudi Arabia was left with no other choice but to spend more on importation, while its revenue from exportation. It can then be rightly said that the depreciating dollar has had a double effect on the economy of Saudi Arabia. It has been estimated by some studies that beginning from 2003 when the dollar started depreciating in value, the kingdom of Saudi Arabia has lost 10.4 billion riyals. It has been discovered that trade growth and balance is dependent on the level of competitive prices as well as rate of economic growth. Change in exchange rate is often felt in the form of change in the level of competition between price and income growth (Almeshal and Albahoth, 2004).

It has been observed that the fall in the value of the US dollar which was pegged against the Riyal, has affected the economy in diverse ways. The economy has been suffering from fall in value of actual assets coupled with which cost of importation. Even though the economy has enjoyed the benefit of the export sector in time past, it has recently been struggling in this area.

2.4.2.1 The effect of fixed exchange rate on the Riyal and FDI

Russ (2007) came to the conclusion that fluctuation in exchange rate that exists between two countries has affected FDI, and this effect is dependent on certain macroeconomic variables.

For instance, production cost as well as overhead cost which are incurred under a certain exchange rate at a particular time affected the revenue accrued at this time even amidst strong uncertainty. Grossman and Razin, (1985) Horstmann and Markusen (1992) Campa (1993), and Dixit and Pindyck (1994) were of the opinion that unstable exchange rate leads to volatility in the country's currency.

Alheji (2007) summarized the positive and negative impact of exchange rate on Saudi Riyal as follows:

1. Advantages of increasing the exchange rate of the riyal: Rise in the value of the reruns on foreign investment, especially for companies whose investments are valued in US dollars. This is also applicable to foreign companies whose companies have been in operation for the past three years.

2. Disadvantages of increasing the exchange rate of the riyal: Drop in the level of foreign investment due to increased cost of doing business within Saudi Arabia. It is foreign companies that are coming for the first time to do business in the country that will be affected the most, unlike companies that have been in operation for a long time, and has so enjoyed increase in value of set. It has been found that revaluation will cause discouragement amidst foreign investors who once had plans of entering Saudi Market

It can then be rightly said that foreign investors are at advantage when the value of the US dollar drops in value as there will be reduction in the cost of doing business. Furthermore, non-US based investors will often benefit the most from the gap in exchange rate. However, decline in the value of currency often causes a decline in import sector which has links with most foreign investment.

2.5 Summary

In this chapter, all relevant literature that relates with foreign direct investment has been discussed, including the aims and objectives. Other concepts that influence FDI were taken into consideration as well.

It has been revealed that there are more than 20 factors which influence the inflow of FDI into the host country and they include; democracy, religion, government stability, internal and external conflicts, government regulations, bureaucracy level, social live, economic factors, political factors, economy stability, market growth and size, infrastructure projects, investment regulations, taxation policy, average salary, stock market, government expenditure, industrial sector growth, skilled labor, export and import sectors, and currency stability.

Also, barriers hindering FDI have been categorized into different parts and they include; social culture and government regulation. However, the government has been making considerable efforts to increase the flow of foreign investment while also building up robust foreign assets, through the implementation of new regulations. In addition, three major methods were identified which foreign companies chose when coming into the Saudi market; partnership, direct investment and government contracts

Terrorism, which affects the national economy, has been examined in this chapter. It was discovered that terrorism has had both positive and negative effects on FDI in Saudi Arabia Moreover, relevant literature has shown the effect instability in the relationship between the Kingdom and Iran will have on FDI coming into a country. The effect of procuring military weapons, as well as nuclear programs will have on FDI has also been taken into account. In the course of literature review, the phenomenon of Arab Spring was discussed. Investigations were also made to determine the influence of Arab Spring on the economy and FDI.

Furthermore, when viewed from the perspective of economic phase, this chapter has shed some light into the relationship that exists between macroeconomic variables and FDI. It has provided the needed view to investigate the effect of national currency on FDI. Added to this, factors such as fixed and pegged exchange rate have been evaluated to determine their effect on the inflow of foreign capital.

In the following chapters, readers will be guided into understanding the conceptual framework contained in this thesis. All relevant plans and diagrams will be discussed as well as research questions and aims. In addition to this, all key factors that have been discussed in the opening literature review of the chapter shall be taken as an integral part of this research. Every other factor relating to FDI shall be taken account of.

CHAPTER THREE: CONCEPTUAL FRAMEWORK

3.0 Introduction

The overarching goal of this chapter is to exhaustively and comprehensively discusses the objective of this study. In answering some of the research question contained here, a number of key factors were taken from the literature of previous studies and then integrated into this research. The goal for this integration is to develop concrete research methodology contained in this research, while also selecting the right method that will be needed for the collection of date gathered from interviews. More also, the integration will go a long way in developing a robust conceptual framework needed by this study. The conceptual framework is an embodiment of all aspects that have some form of relationship with all major issued discussed here; regulatory factors, political factors, and key economic factors.

Jabareen (2009) defined conceptual framework used by any system as a collection of interrelated ideas. Through these ideas, an inclusive knowledge is created about the studied event. These ideas are then used in creating theoretical outline, open a communication line with the individual events while also creating a framework-specific viewpoint.

A study attempt can then rightly described as the integration of components that are diverse and connected as well. The components described here include; research objective and motivation, procedure, text appraisal, deduction, and investigation inquiries. The research inquiry serves as the preliminary idea needed for the study, combining all the components and study attempt (Leedy & Omrod, 2005)

Kerlinger and Lee (2000) pointed out that “without some sort of statement of problem, the scientist can rarely go further and expect the work to be fruitful” (p.15). It is for this reason that a study first starts with a feasible study enquire as it helps determine if a research is essential in the first place (Creswell, 2002)

3.1 The development of the conceptual Framework

Three major principles which are considered as being fundamental to the inflow or exist of FDI into any country have been outlined here. These principles factors are; political factors, regulatory factors and economic factors. They are meant to serve as indicators to foreign investors who have plans of coming to invest in Saudi Market. These factors have been discussed in previous literature as well as the second chapter of this study.

The findings and outcome outlined in this chapter have pointed out some important sub factors. Investigations will be done on these sub factors with the aim of finding out how they relate to findings and analyses of this study (Figure 1).

These sub factors have been found to have different impact on FDI coming into a country, though being dependent on the condition of the country. A good number of these factors have been found to bear considerable influence on FDI coming into a country. On the other hand, some of the factors have been found to bear very little influence on the inflow of FDI due to the distinctive position of the country, and so are given very little attention. It can then be rightly said that the effectiveness of these sub factors is a function of the condition of the host country.

These factors often times work in diverse ways, producing different results. They can either work collectively or on individual basis. They can either be considered as major or minor factors depending on the particular case. Furthermore, it is important for foreign investors to take into consideration these factors before entering the market. Lastly, any country with plans of developing its FDI sector equally needs to take into account these factors.

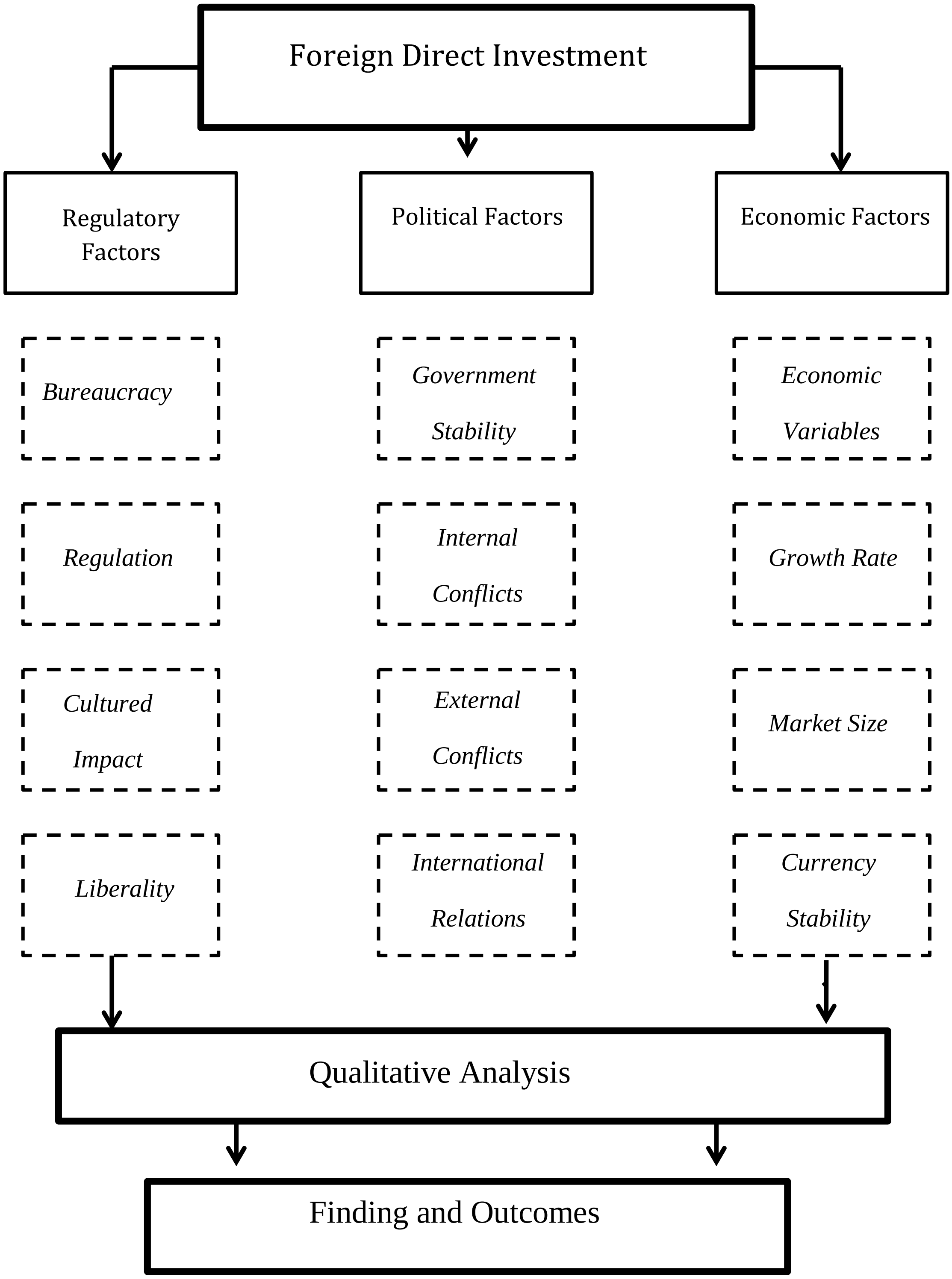

Figure 1 The Conceptual Framework

3.1.1 Key Regulatory factors

The goal of studying regulatory factors is to determine all major rules that have been used by Saudi government in developing FDI, while also identifying government policies that affect FDI. It also aims to find out how the lifestyle of Saudi citizens affects foreign investments.

Four factors which are considered as being fundamental for regulatory factors have been identified and they are; Culture, Liberality, Regulation, and Level of Bureaucracy.

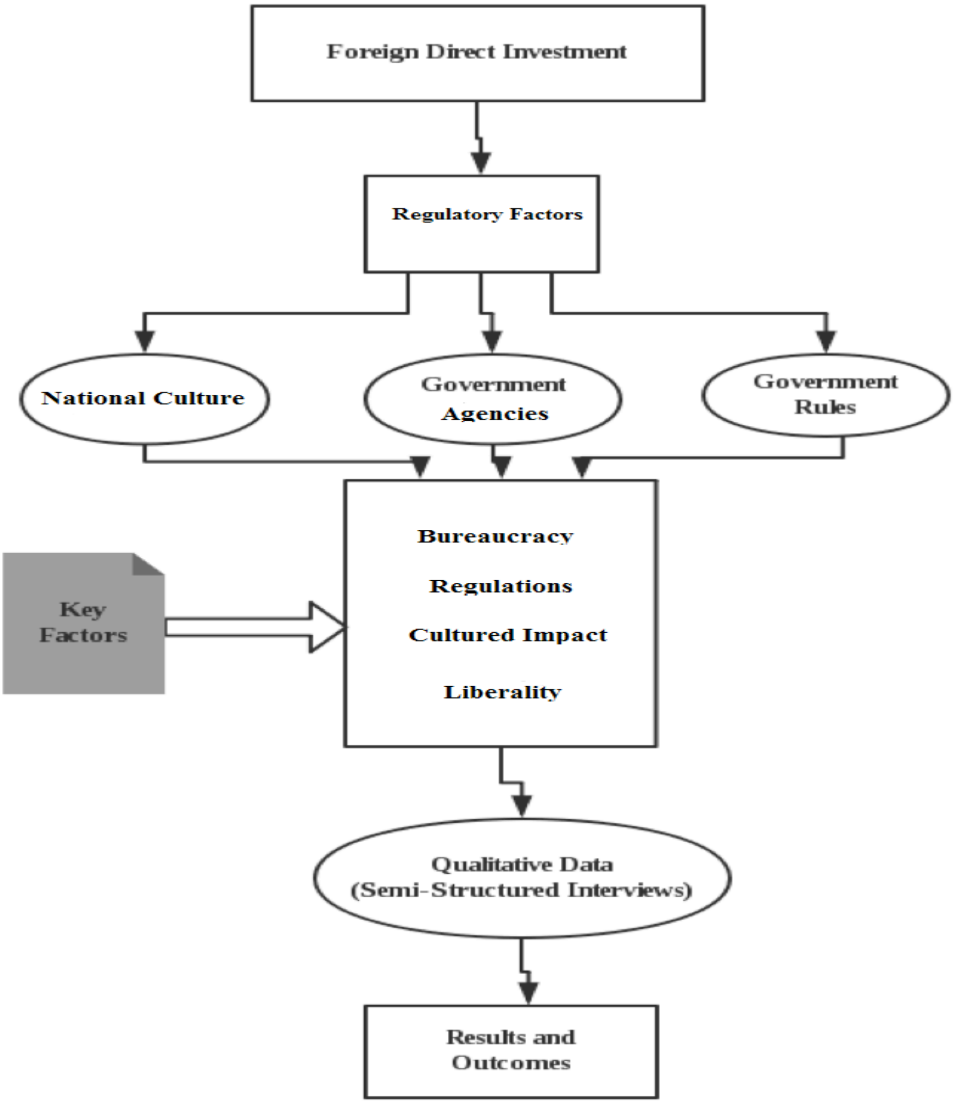

Figure 2 The Conceptual Framework of Regulatory Factors

- P1: Bureaucracy

This aspect has been proven by the literature review chapter as being a major influence to the inflow of FDI. After being studied in most of the chapters here, it was then discovered how bureaucracy level; the level of government regulation in different sectors, affect the inflow of FDI (See literature review 2.1.2 and 2.1.2.1).

- P2: Regulation

This aspect examined the influence of government sectors on FDI. It goes beyond merely issuing and changing of rules which of course could jeopardize long-term investment of foreign investors in Saudi Arabia, to other aspects which were considered as major barriers to the inflow of FDI into Saudi Market (See literature review 2.1.2, 2.1.2.1and 2.1.2.2).

- P3: Impact of culture

Culture has always played a major role, as it determines how a conservative society such as Saudi Arabia, is willing to accept FDI. It can then be rightly described as “Potential Barriers” to inflow of FDI to Saudi Market. (See literature review 2.1.2).

- P4: Liberality

Just like earlier discussed, the conservative nature of Saudi community as well as varying restrictions imposed by the government can bring about low level of liberty. This has been considered as major barriers by foreign companies with plans of investing in Saudi Market. For this reason, it was studied in previous studies under the theme: Potential Barriers of entering Saudi Market (See literature review 2.1.2).

Previously mentioned key factors (bureaucracy, regulation cultured impacted and liberality) were extracted from the works of Khatlan (2014), Al-Iriani and Al-Shamsi (2007), Aleqt (2006), Hafiz (2009) and Abdel-Rahman (2010) who all stated the importance of these factors and how they relate to FDI globally especially in countries like Saudi Arabia.

A semi-structured interview was also used in evaluating the influence of these sub factors on Saudi Arabia. Four major questions were used in examining the influence of regulatory factors on the FDI sector. They are;

1. In your opinion, what are the major barriers that are hindering foreign investors from coming to invest in Saudi Arabia?
2. What is your opinion about efforts that have been made by Saudi government so far in attracting foreign investments?
3. Why are most people of the view that government sectors can hinder the inflow of FDI?
4. In your view, what is the best entry method foreign investor can use when entering Saudi Market?
5. What is the sector that is mostly targeted by foreign investors coming into Saudi Market?

3.1.2 Key Political Factors

Being one of the major aim and research question used in this study, the research has outlined four major four major political event witnessed in the region which will have to be evaluated to determine the effectiveness of FDI in Saudi Economy.

Saudi Arabia has been experiencing conflict between its authorities and some insurgents. Added to this, the Kingdom has for many years now had a tensed relationship with the republic of Iran regarding its nuclear program. These set of events have raised question as to whether it will be necessary for Saudi government to take up its own nuclear program in response to Iranian nuclear program. The potential effect of this action on FDI has been evaluated in this research. Another major event that was looked into in this research is the effect of Arab Spring which started in 2010. The collective impact of these events on FDI has been examined in this research. The examination was done based on the following propositions:

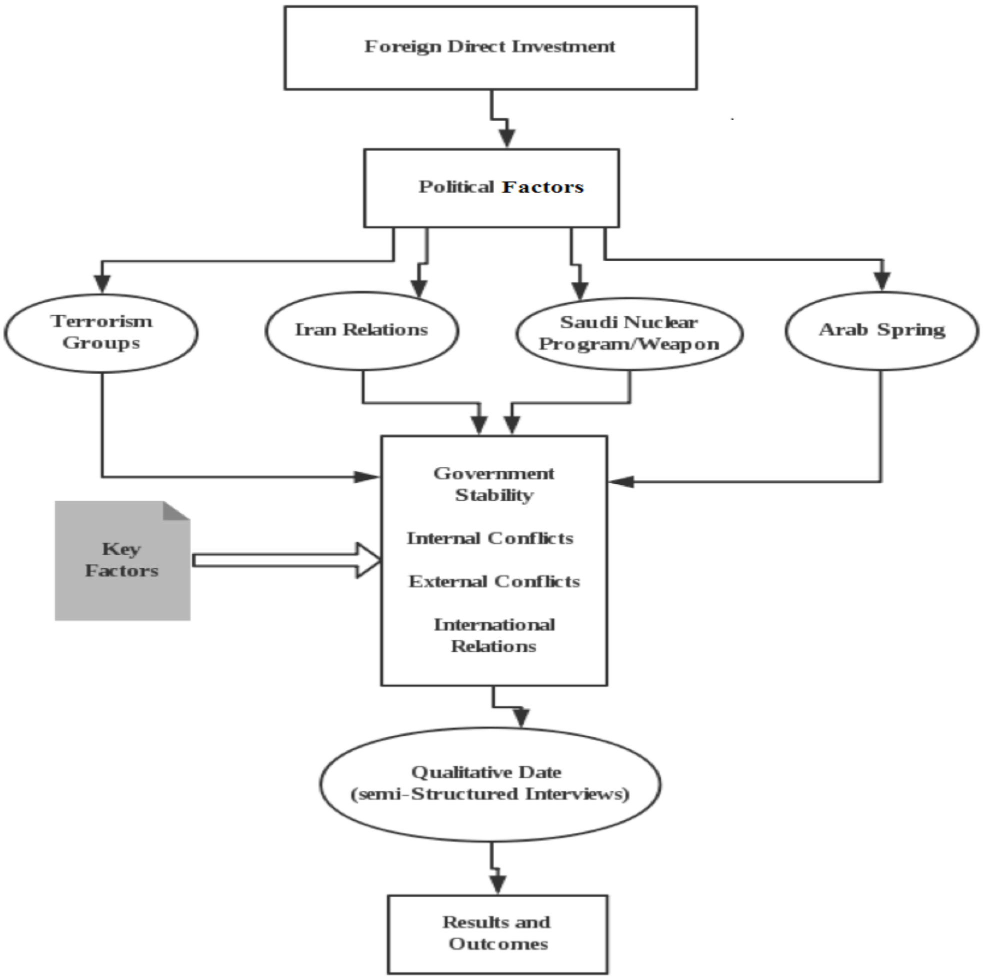

Figure 3 The Conceptual Framework of Political Factor

- P5: Government Stability

Results coming from the literary works of Abdel-Rahman (2010), Busse and Hefeker (2007), Ibrahim (2013), Khathlan (2014), Al-Iriani and Al-Shamsi (2007), Abadie and Gardeazabal (2007), Yamani (2010), Aldukheil (2004), Abu Fatim (2003), Singh and Jun (1995), Chan and Gemayel (2004), Abu Jamea (2013) have proven that the political climate of any government regime bears considerable effect on both local and foreign investments. The stability of Saudi government is a measure of the amount of FDI coming into the country (See literature review 2.1.2, 2.2.1.2, 2.2.3 and 2.2.4.1).

- P6: Internal Conflict

Following the 9/11 attack on the United States, the demographic map of terrorism across the World is quickly becoming more expanded. Terrorist groups have made repeated attacks on the government of Saudi Arabia by destroying oil facilities, as their plans are to destabilize the government. As a result of this internal conflict, it is needful for the impact of terrorist on FDI to be examined as pointed out by the literature of Abdel-Rahman (2010), Busse and Hefeker (2007) Gold (2004), Abadie and Gardeazabal (2007), The Global Business Policy Council (2004), Yamani (2010), Aldukheil (2004), Abu Fatim (2003) and Amlin (2008) See literature review 2.2.1, 2.2.1.2 and 2.2.3)

- P7: External Conflicts

The Kingdom is right at the heart of a conflict torn region, surrounded by several countries engaged in one form of conflict. It is for this reason that different research have been done evaluate the effect of this situation on Saudi Economy, as outlined in the literature of Abdel-Rahman (2010), Busse and Hefeker (2007), Almeshal and Albahoth (2004), Aleqt (2008), Abed (2010), Aleq (2007), Amlin (2008), Rogan (2011), Singh and

Jun (1995), Kim (2014), Lucas (1990) and Abu Jamea (2013). These literature studied the influence of external conflict on FDI (See literature review 2.1.2, 2.2.1.1, 2.2.2, 2.2.2.1, 2.2.3, 2.2.4 and 2.2.4.1)

- P8: International Relations

Based on previous studies, it has been observed that a country that puts in sufficient efforts into the relationship it has with its neighbors, ends up improving its FDI sector. However, the relationship between Saudi government and that of countries like Syria has always been tensed. In the light of this, this research has investigated these elements with the aim of identifying how they will affect FDI. Following the nuclear program that was embarked by Iran, different views concerning the possibility of Saudi government embarking on its own nuclear program have been addressed by Abdel-Rahman (2010), Busse and Hefeker (2007), Almeshal and Albahoth (2004), Aleqt (2008), Abed (2010), Aleq (2007), Amlin (2008), Rogan (2011), Singh and Jun (1995), Kim (2014), Lucas (1990) and Abu Jamea (2013). (See literature review 2.1.2, 2.2.2, 2.2.2.1, 2.2.3, 2.2.4 and 2.2.4.1).

Previous sub factors were tested to confirm their validity on FDI. Ten different set of questions were used and were administered to respondents via a semi-structured interview. The answers obtained are a clear demonstration of the impact of political factors on FDI. The questions are as follows:

1. What is your view concerning the current political situation, and how does it affect the inflow of FDI into Saudi Market?
2. How has terrorism affected the economy of a country?
3. Can you outline some of the effect of terrorism on the inflow of foreign investment?

4. How can terrorism which is often targeted at foreigners affect the inflow of FDI into Saudi Market?
5. How has the tension between Iran and other Gulf countries affected the government's ability to attract FDI?
6. How has Tehran's nuclear program affected the inflow of FDI?
7. What effect will Saudi Arabia's decision to launch its own nuclear program have on inflow of FDI?
8. How has Arab Spring which affected countries like Tunisia, Egypt, Libya, Bahrain, Yemen and Syria, impact the inflow of FDI to Saudi Market?
9. What are the most important factors that need to be taken into consideration by foreign companies before coming into Saudi Market?
10. What are the needful actions that Saudi Arabia government needs to take to secure FDI inflow into Saudi Market?

3.1.3 The Key Economic Factors

Macroeconomic factors are important factors which need to be taken into consideration by foreign investors before entering a country. To provide answers to questions, macroeconomic factors alongside research objectives have been investigated. Macroeconomic factors such as the increasing price of oil, inflation rate, GDP growth rate, GDP per Capita, foreign reserve and unemployment rate were tested to determine their relationship with FDI. These factors have continually changed over the last 30 years and this has brought about significant growth of Saudi Economy. Furthermore, monetary policy such as currency exchange rate and pegging of the Riyal against the US dollar which first started in 1986 shall be discussed here.

In an attempt to understand the influence of macroeconomic factors on FDI, different propositions have been reviewed as seen in figure 4

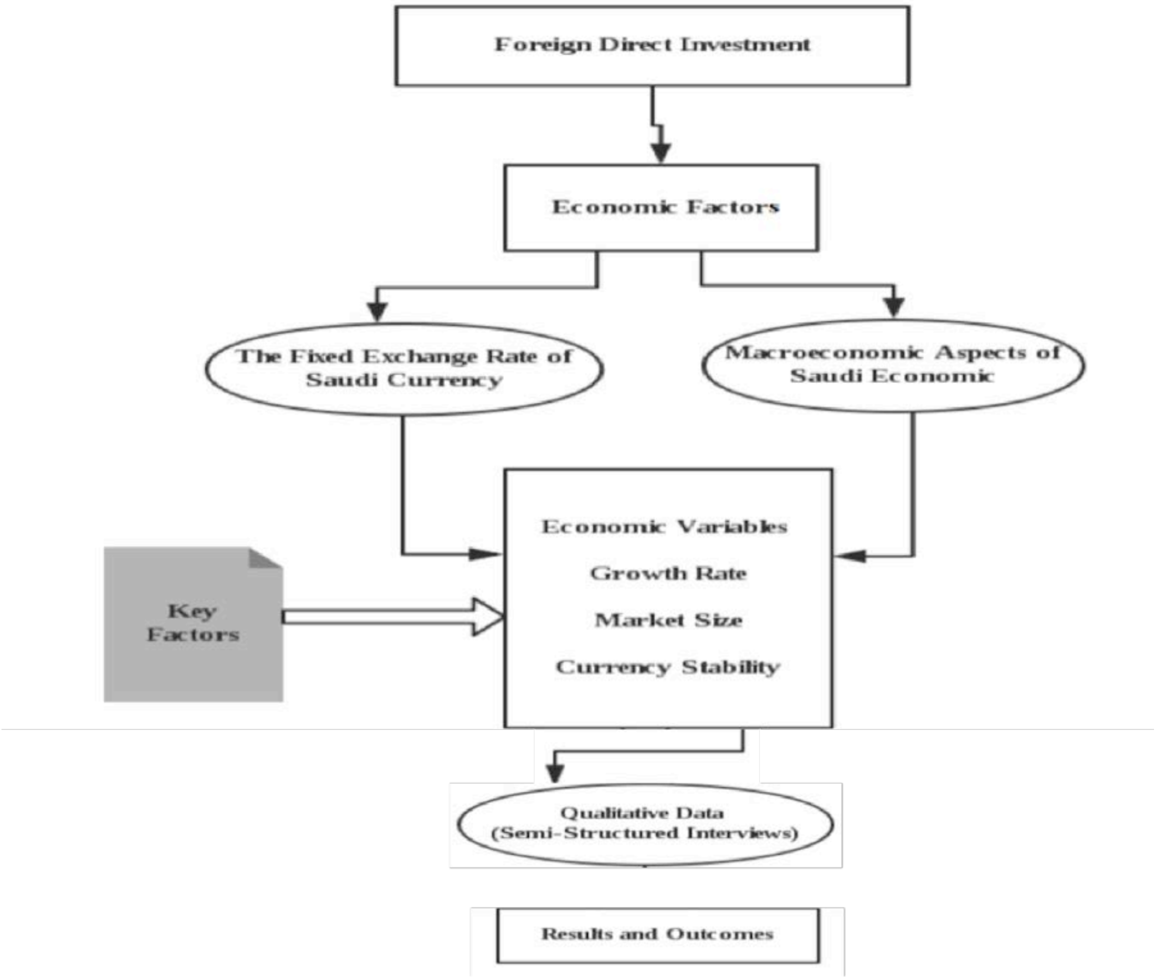

Figure 4 The Conceptual Frame work of Economic Factor

- P9: Economic Variables

This literature has examined a number of economic factors which is of relevance to the study of FDI. Some of these factors include salary; tax, and openness of market as outlined by Chakrabarti (2001). Furthermore, Shahabadi and Mahmoudi (2006) took into account factors like capital returns, economic liberty, infrastructures, economic development, local investment, natural resources, human resources, inflation percentage, external debt, financial position of the country. Khachoo and Khan (2012) went further to study how external reserve affected inflow of foreign investment. Added to this, Niazi et al. (2011), Omankhanlen (2011), Narendra (2014), Borensztein et al. (1998) have studied the influence of inflation rate on FDI. Additionally, Ng (2010), Yazdanian (2014) and Khusanjanova (2011) all examined the effect of oil prices on FDI Borensztein et al. (1998), UNCTAD (1994) Majeed and Ahmed (2009) and Alamri (2011) did the same for unemployment. All these literature studied the effect of inflation rate, oil prices, unemployment rate and total reserve on FDI inflow into Saudi Market. In testing these variables, open-ended questions administered through semi-structured interviews were put to use after which published reports were used to monitor total foreign reserve of the country within the last 30 years. See literature review 2.3.1, 2.3.1.2, 2.3.1.3, 2.3.1.4.

- P10: Growth Rate

This study has shown the potential effect FDI has on the growth of economy of the host country. Sandalcilar and Altiner (2012), Walsh and Yu (2010), Jyun-Yi, Wu and Hsu Chin-Chiang (2008), Farkas (2012), Hameed and Bashir (2012) Borensztein, Gregorioand Lee (1998) and Razmi and Behname (2012) were all of the opinion that GDP and FDI variables relate positively with each other. Added to this, growth rate of an economy can bring about significant inflow of FDI into the country, with the flow either being positive or negative. This relationship will have to be studied through two methods; semi-structured interviews and figures obtained from data sources. See literature review 2.1.2, 2.3, 2.3.1 and 2.3.1.1

- P11: Market Size

It has been proven in this literature that market size bears a significant role on FDI. A country with high demand for infrastructural projects are most times seen by foreign investors as top options. Added to this, foreign companies often target countries with high purchasing power and rapid economic growth. These factors often cause foreign investors to target industrial sectors so as to meet with the demands of the market. These factors were taken account of by Abdel-Rahman (2010), Loree and Guisinger (1995), Shahabadi and Mahmoudi (2006), Razmi and Behname (2012), Akin (2009), Markusen and Venables (1999) and Haaland and Wooton (1999). These features were taken into consideration when evaluating the effect of Market Size on FDI (see literature review 2.1, 2.1.2, 2.3, 2.3.1, 2.3.1.2, and 2.3.1.5)

- P12: Currency Stability

Fry et al. (1995), Omankhanlen (2011), Campa (1993), Aleqt (2008), Almeshal and Albahoth (2004), Russ (2007), Grossman and Razin, (1985) Horstmann and Markusen (1992), Campa (1993), Dixit and Pindyck (1994) and Alheji (2007) are all of the view that foreign investors hoping to create a long-term investment in a country will first have to evaluate the currency stability of the country. A country's currency backed up by an abundance of natural resources such as gold and oil, often attracts more FDI. Furthermore, the import and export sector which FDI depends on is also influenced by currency rate. Finally, foreign investors tend to get more confident in an economy with stable currency exchange rate.

In previous literature, researches which were conducted through semi-structured interviews were used in examining the influence of key factors like currency stability on Saudi Market (see literature review 2.1.2, 2.3.2 and 2.3.2.1). To fully understand the impact modification to Saudi monetary policy will have on FDI, grounded theory method was used, though not really being relevant to this study. The applied questions made use of in the semi-structured interview are;

1. What effect does rapidly increasing oil prices have on the inflow of FDI into Saudi Market?

2. In your opinion, how will high inflation affect the inflow of FDI into Saudi Market?
3. "The inflow of FDI to and FDI% GDP have been increased toward to the rapid growth of high inflation that impact Saudi economy since 2007 as result of oil prices pumping." What is your opinion regarding this?
4. Of what effect will the growing unemployment rate have on foreign investment in Saudi Market?
5. What is your opinion of the relationship between GDP growth and increasing FDI in Saudi Market?
6. Of what effect will the pegging of Saudi Riyal against the dollar have on the inflow of FDI into Saudi Market?
7. What effect do you think the declining value of Riyal against other major currencies, will have on the inflow of FDI into Saudi Market?
8. Should the government decide to raise the exchange rate of the Riyal against the US dollar, what effect will this have on FDI?
9. What effect will the pegging of Saudi Riyal against other currencies have on FDI?

Finally, series of figures collected from published reports have been used in monitoring transaction of FDI towards GDP per capita as well as the total reserve recorded over the last 30 years starting from 1980.

3.2 Summary

By the time this chapter comes to a close, the process used in this research became clear. The conceptual framework has been outlined based on the objectives of the study by the answering of research questions. In obtaining the data needed for this research, a qualitative approach in the form of semi-structured interview was used.

The major three key factors of this study are outlined as follows:

1. Regulatory factors which are further classified into three main subjects; government agencies, government rules and national culture

The four basic elements (bureaucracy, regulations, cultured impact and liberality) extracted from four elements have made it necessary to test using qualitative research.

2. Political factors which are broken down into four categories; activities of terrorist, relationship between Saudi and Iran, Arab Spring and Saudi Nuclear Program/ Weapons

The key factors outlined by this research include government stability, internal conflicts, external conflicts, and international relations.

3. The economic factors took into account issues like; macroeconomic aspects of the Saudi Economy, the fixed exchange rate of the Saudi currency

The four key factors, which have been used in other relevant literature, include: growth rate, currency stability, market size and economic variables. Other than using qualitative interview, secondary data was also used in testing for the growth of the market within the past 30 years.

In the next chapter which will contain research methodologies, all applied methods and philosophies used in the course of this study will be explained. The next chapter will aid readers in understanding all data and resources used in the course of this research. Finally, the data will be validated based on ethical issues taken account of when collecting the data.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.0 Introduction

In this chapter, we shall be discussing the various strategies used to collect relevant data during the research.

The Research Onion Framework (see figure 5) was used to illustrate the various stages of this research such as the Philosophy, Approach, Strategy, Design and Data Collection Methods. The outer layers are connected with the researcher's considerations in order to provide the framework and limitations of which the investigation processes and the data collection methods are selected; as agreed by Saunders and Tosy (2012). The consideration of these features is paramount to developing a research design that can be justified and clarified.

There has been a disagreement between Saunders et al. (2011) and Crotty (2007) regarding the stages of research. Saunders et al. (2011) suggest six stages of research, which are Philosophies, Approaches, Strategies, Choices, Time Horizons, Techniques and Procedures. On the other hand, Crotty's (2007) categorization of research stages is more understandable due to his separation of 'theoretical perspective' and 'epistemology.' This distinction makes it easier for any researcher to justify his or her choice of theoretical perspective, methodology, methods, and epistemology; considering the fact that they are all closely related.

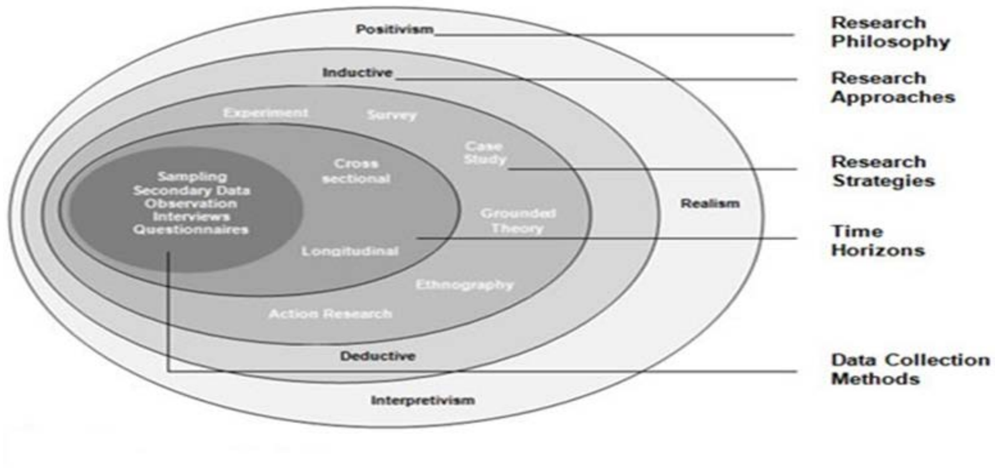

Figure 5 The Research Onion (Saunders et al. 2011)

As the discussion in this chapter progresses, we are going to prove the credibility of this research and the instruments used to meet the ethical standard for this research. We are also going to certify the reliability of the data collected.

This chapter finally agrees with the Bhattacharyya's (2009) concept that suggests that the systematic method of solving a research problem is a fundamental part of research methodology – the methodology should be designed in a way that methods and techniques are applied correctly. The selected methodology varies in relation to the category of the problem.

4.1 Research Philosophy (Critical Realism)

According to Saunders et al. (2011), Research Philosophy has to do with a vital expectation on how to recognize everything around you. These expectations will determine which research strategy and method to use. Mkansi and Acheampong (2012) classifies Research Philosophy as ontology, epistemology, and axiology; they differ in their applications to the 'qualitative' discussions, and also as a principal basis of a dilemma to researchers in finding the links between the research area and knowledge.

- **The Positivism Philosophy** is a simplified structure that is wonderfully designed in a way that has led to computable observations, enabling the evaluation of outcomes with the use of numerical methods. It is a critical and objective method that is frequently adopted in natural science and comprises the different philosophies of natural science such as static concepts, international law and the perception of every event in nature (Saunders, et al 2011).

  However, this philosophy do not correlate with the objective of this research; as the aim of this study is to analyze the risks of entering the Saudi market, and positivism stretches beyond this case. The Philosophy of Positivism needs more observation study, quantitative study, and statistic analysis. The study was designed with a qualitative research. The researcher worked based on the research topic, with a focus on key factors of the study and the answers derived from the research questions.

- **Interpretive Philosophy** views the social science of business studies as difficult to be outlined through theories, in comparison to other natural sciences. This philosophy is considered essential to the Positivism Philosophy. There could be different explanations of Interpretive Philosophy in order to correspond with different cases of research problems (Johnson and Christensen 2010). This kind of philosophy has features that enable it to fit into the structure of any kind of research such as the use of flexible interview questions, qualitative study, and gaining knowledge through respondents.

  However, Interpretive Philosophy has more to do with the interpretation of the behaviour of humanity than the reality of the problem, such as in the case of investigating the FDI in

Saudi Arabia. This research does not aim at interpreting phenomena, but the real barriers to FDI in Saudi Arabia and how to overcome such barriers; therefore, this philosophy cannot be applied in this study.

- **Realism Philosophy** is applicable to the independent beliefs and thoughts of humanity, focusing on the influence of belief on life. The Philosophy of Realism believes that there exists some external and objective reality that influences people's social interpretations and behaviour. It believes that human beings cannot really be an objective of study through natural science. This philosophy also identifies how human beings can react in the presence of real-world situations (Johnson and Christensen 2010).

The purpose of this research is to study the difficulties faced by foreign investors who intend to enter the Saudi Arabian market. This kind of study corresponds with the Philosophy of Realism because it evaluates real situations. The researcher conducted in-depth interviews with selected sample of respondents to get their thoughts and views on the current investment situation in the region – this is part of realism philosophy. This process corresponds with Wikgren's (2005) statement that realism is another philosophy that is relevant to a scientific investigation. The core of realism is the acknowledgement that REALITY is the TRUTH – the objects that are able to appear independent of the human thoughts. Realism is the philosophy where the reality is relatively independent of the mind.

The researcher aims at recognizing how MNCs view the Saudi market and their attitude towards penetrating the market considering government policies, economic and political risks. This is similar to the explanation of Saunders et al. (2012) where, in opposition to illusions (full of insufficient information), the direct realist is reacting to the critical realist. It does not recognize the world in TV images; it analyzes everything from every angle and direction.

This study considered several issues that affect the flow of foreign investment in Saudi Arabia, including political risks. The author considered these issues by applying particular methods (qualitative method) and approaches (combined research approaches: deductive and inductive). Therefore, the Research Philosophy adopted in this study is the Realism Philosophy. This is also the Research Philosophy often used by business and management researchers when it comes to applying different methods and concepts.

The result of the comprehensive interviews conducted by the researcher with different categories of respondents indicates that the researcher gathered different opinions on the situation (regulatory, political and economic) in Saudi Arabia, which are sufficient enough to predict the potential risks they pose to foreign investments in the Kingdom. Thus, the study can lead to a critical Realism Philosophy. The respondents gave many examples to clarify their opinions or views, and this expanded the picture of the situation in the country.

4.1.1 Epistemology

Epistemology is the study of the way the world is being perceived, the grounds for such perception, and how we can relate it to others. The reason for obtaining knowledge of the world differs in social framework and concepts; therefore, no individual epistemology is correct or incorrect. Dissimilar epistemological approaches can be useful for research, in order to explain the ways the world is viewed (Tronvoll, et al. 2011).

As earlier mentioned, the purpose of this research is to study those factors foreign investors consider as barriers to investment, using Saudi Arabia as a Case Study. This kind of study requires interviewing certain categories of respondents who have vast knowledge and experience in this field in relation to Case Study. In terms of Qualitative Study, this research has been designed to focus more on the main factors (regulatory, political and economic policies) that could impact on foreign investment. The respondents interviewed in this study include foreign investors, business consultants and government officials. The purpose of choosing these categories of respondents was to find the right people who can accurately answer the questions and give feedbacks based on their understanding of these barriers. Furthermore, the research involves questions with a number of hypotheses and propositions based on the explanations of respondents and their forecasts on what may happen in the future.

The process of Epistemology requires many enquiries such as: (1) How one can identify reality (2) The relationship between the knower and what is known (3) The physiognomies, philosophies, and expectations that influenced the procedure of understanding and achieving the results (4) The probability of that procedure being mutual and done again by others in order to evaluate the value of the research and the dependability of those outcomes (de Gialdino, 2009).

The outcome of some questions depends on the answers given by respondents; in other words, the questions are created from answers that can be described as a kind of critical realism.

4.1.2 Ontology

Ontology has to do with the questioning of whether an objective reality is real. It can also be seen as the science of being. Ontology also supports the assertions made by a specific method of social investigation about the nature of social reality. It examines the category of reality that occurs, what that reality appears to be like, the things that exist inside the reality and how these things intermix (Tronovoll et al. 2011).

Saudi Arabia, which is the case study in this research, is worthy of being a case study because of the Kingdom's unique position as the biggest Islamic nation in the Middle East. Saudi Arabia (a major oil exporter in the world) is considered an extremely conservative country controlled by a royal regime. The communities making up Saudi Arabia are controlled by different formal and informal regulations besides the central government's law. There are many religious, tribal and community rules that control the society. Thus, the objective of the questions for the designed interview is to examine the barriers facing foreign investment, taking cognizance of the social culture, residents' attitude and behaviour. This method of designing interviews correlates with Saunders et al. (2011) who agreed that Ontology is objective and occurs independent of human feelings, opinions or information of their reality (realist), and is understood through social adaptation (critical realist).

For example, when the researcher was studying the uneasy relationship between Iran and Saudi Arabia, and how it influences the inflow of foreign investment, the answers gotten from the respondents reflect their ideology and culture besides the current political situation, which is critical realism philosophy. Furthermore, the respondents were told to respond based on the culture and regulatory policies of Saudi Arabia (the case study).

4.2 Research Approach

Kenneth (2000) addressed two different approaches in terms of gaining new knowledge; they are the deductive and inductive approaches. The inductive approach is a module of building theory that starts with observation in terms of generating a new phenomenon under investigation. The deductive approach is a module of testing the theory used in order to ascertain whether or not it meets a specific case.

In this research, the researcher applied a combination of both approaches (deductive and inductive) for various reasons. The research is based on a number of literature reviews which were used to guide the main ideas of the study – this can be considered a deductive approach. These pieces of literature enabled the researcher to examine a number of propositions that contributed to the outcomes of this study as well.

Creswell (2002) proposed several actual principles on which there is a treasure of literature from which you can outline a hypothesis and a theory. When making research into a subject that is innovative, creates a sensational discussion, and on which there is little literature available, it is more suitable to react inductively by producing information and examining what theories and subjects the information proposed.

The researcher, through Qualitative Study, has studied the thoughts of humanity. This study involves a selected number of high-level respondents who work in foreign companies, consultant offices and government sectors. It is more likely that this kind of study follows an inductive approach, as previously explained. Also, these interviews are processed to transcript and coding for the purpose of gaining more knowledge and information about the obstacles faced by foreign companies, which are the main objectives of the study. This pattern of research and investigation (which is more likely to be an inductive approach) has consumed significant time and effort.

Additionally, the researcher has studied the impact of the currency exchange rate on FDI in Saudi Arabia, through the open-ended interviews. In this section, the researcher has suggested a number of questions and proposed different cases of Saudi Riyal exchange rate. For the purpose of generating a new concept of the impact of any possible change in the current currency policy, such as increasing the currency rate or pegging it with other currencies, these concepts have been built by designing particular questions and analyzing the answers to reach these concepts without applying any previous literature or study, which is a kind of the inductive approach.

4.3 Research Strategy

4.3.1 Case Study

Robson (2002:178) defines a Case Study as: “A strategy for doing research which involves empirical investigations of a particular contemporary phenomenon within a real life context using multiple sources of evidence".

This definition of a Case Study meets the main objectives of this research and study of the main barriers against FDI in the Saudi market. It also answers the questions ‘Why’, ‘What’, and ‘How’ that was addressed in the introduction chapter of this study. Moreover, this type of research strategy involves Documentary Analysis and Semi-structured Interviews conducted for the purpose of evaluating the influence of regulatory, political and economic factors on the flow of foreign investment to Saudi Arabia. Also, the changing figures of a number of economic variables over a 30 year period have been gathered to estimate its impact on FDI. Furthermore, the Case Study challenges the existing theory; thus the researcher has adopted this strategy for the purpose of criticizing the relevant pieces of literature and linking them to the final findings.

4.3.2 Grounded Theory

Grounded Theory is defined as “A general methodology of analysis linked with data collection that uses a systematically applied set of methods to generate an inductive theory about a substantive area” (Glaser, 1992, p. 16).

The Grounded Theory, as defined above, is in agreement with the aim of this research to develop a perception of the relationship between the currency exchange rate and FDI in the Saudi market. The participants were questioned through interviews to predict how FDI could be affected in the event of any change in currency policy in Saudi Arabia, such as increasing the rate or pegging it with different currencies.

This research is not based on any previous literature or study, as there is no previous study (or studies on similar cases) that focuses on how FDI could be affected in the event of any change in monetary policy in Saudi Arabia. Also, certain sectors in Saudi Arabia such as economic, military contracts, oil prices, and external government investments are entirely linked to the US dollar. The United States has had a historical cooperation in the region since 1945, and both countries enjoy political alliance. This exceptional situation motivated the researcher (without depending on previous pieces of literature) to study what the impact may be on FDI in the event of any possible change to the currency policy.

4.4 Research Design (Qualitative Method)

Saunders et al. (2011) describe Research Strategy as “The general plan of how the researcher will go about answering the research questions,” while Bryman (2008, 698) recognizes Research Strategy as “The general orientation to the conduct of research”. Remenyi et al (1998) states that the Research Design delivers the general course of the research, including the procedure by which the research is piloted. Saunders et al. (2011) declares that suitable Research Strategy has to be designed based on research inquiries and purposes, the degree of current information on the topic to be researched, the quantity of time and assets accessible, and the logical keystones of the researcher. Introducing a quite dissimilar method, Yin (2003) suggests that a specific Research Strategy has to be designed based on three situations; the nature of research question, the degree of control a researcher has over real interactive proceedings, and the level of emphasis on modern or past events.

The purpose of this study is to investigate different factors that affect FDI in the Saudi Market; these factors need to be investigated through various methods and processes. The main factors were examined through humanity interviews for the purpose of obtaining opinions and perceptions on FDI in the Saudi market.

For the economic phase, the researcher applied a detailed model of research by mixing the outcomes of qualitative studies with published reports in the discussion section to clarify the significant findings of the study. This method is in agreement with the views held by Johnson and Onwuegbuzie (2004) that a researcher could combine different methods and utilized multiple data types gotten from dissimilar sources to build a diversified method model to study a particular factor in research study. It is noteworthy that the diversified method design does not have specific rules or limitations; it can be designed in various ways to align with the research question and objective of the study.

4.4.1 Qualitative Data Analysis

Zhang and Wildemuth (2009) state that various contemporary studies use the Qualitative Content Examination; indicating a reduction in the use of the quantitative method.

The researcher applied the qualitative method of obtaining data for the purpose of answering the research questions. This method has been processed under the Exploratory Study Strategy. The researcher aims at conducting a wide range of interviews with respondents who have a vast knowledge on FDI; these interviews are analyzed and summarized systematically to answer the research questions.

Through this qualitative method of study, the researcher was able to investigate and deeply study the major factors that influence the flow of FDI in Saudi Arabia. The researcher also applied Semi-structured Method of interview in order to give respondents the room to share their thoughts on the subject and also suggest methods that could improve the situation. The interviews were organized on three factors; regulatory, political and economical. Patton (2002) supports this kind of research when he stated that any qualitative data reduction and sense-making work that takes into consideration the volume of the qualitative material recognises fundamental consistencies. Also, Zhang and Wildemuth (2009) agree that Qualitative Content Analysis emphasizes an integrated view of speech/texts and their specific contexts. The Qualitative Content Analysis highlights a combined opinion of speech/texts and their precise settings.

The researcher chose this method because it gives room for detailed discussion on critical issues such as Saudi Arabia's relationship with Iran and the threats of terrorism on FDI. Through this method, the outcome of the research was greatly enhanced and the pieces of literature properly criticized.

It is important to take cognizance of the fact that the researcher had worked as a qualitative researcher in a number of researching companies in Saudi Arabia. Thus, he is experienced enough to select the right methods of interview and the right categories of respondents in order to achieve a dependable research outcome.

4.4.2 Exploratory Study

An Exploratory Study is an important way of "Finding out what is happening, seeking new information or insight, investigating or asking questions, and evaluating phenomena in a new light" (Robson 2002, 59).

Saunders et al (2011) states that, in term of identifying a particular problem, especially when the source of the problem is uncertain, the Exploratory Study can be a suitable method to understand the problem.

The researcher used two components of Exploratory Study to obtain Qualitative Data. The first one is the Pilot Study, used to test the validity of the interview questions; while the second one is the Semi-structured Interview, used to find answers to research questions.

4.4.3 Pilot Study

The Pilot Research Method was applied in this study with the aim of examining the validity of the interviews conducted, and to investigate the strength and weakness points of the interview questions.

The researcher followed the explanation of Kelly and Denney (1969). The goals of the Pilot Study are:

1. To ascertain the validity of the procedures used in gathering information.
2. To develop and confirm the training of field workers.
3. To identify the difficulties associated with the specimen plan, finding provision for the numerous layers involved in proportion sampling and control of randomization in odds sampling.
4. To ascertain the numerous unavoidable difficulties faced in relation to the field work and provide a foundation for good management and treatment of the workforce.
5. To create an avenue for the experimental editing and arrangement so that the events for the advanced dispensation of field information will be advanced earlier.
6. To accelerate the handling and completion of key projects.
7. To develop rate information for later improvement.

This Pilot Study was carried out four months earlier before starting the main in-depth interviews. The researcher specifically applied this method to a selected number of respondents (ten respondents); thereafter, the researcher found that the questions are suitable for real Semi-structured Interviews. Nevertheless, the outline of the interview questions needed to be better structured and a number of questions were eliminated to avoid repetitions. The researcher also obtained more knowledge on how to select the right categories of respondents and the method of communicating with them. The researcher was aware of the difficulty of meeting with this kind of high-level respondents, especially due to their busy schedules. For this reason, the researcher had to strategize and arrange a meeting time with the respondents in advance. In addition, the researcher decided to use a sample selecting method to solve the difficulty of interviewing the participants; this will be clarified later in the sample selecting section.

4.4.4 Semi-structured Interviews (Open-Ended Questions)

In this research, the Qualitative Interview has been chosen as the major research strategy in order to investigate the different kinds of barriers (regulatory, economic and political) facing FDI in Saudi Arabia. The research has different types of themes (regulatory, economic and political) with questions that are structured in a specific order. The Semi-structured Method was applied to collect qualitative data. The open-ended method of questioning was used to gather information and feedback from respondents without any limitation. The oral interviews (one-on-one) enabled the researcher to ask the respondents specific questions and got detailed answers as it relates to the study. The researcher has a list of questions from which he engaged the respondents; thus, using the Semi-structured Method also allowed the researcher to skip some themes in a situation where the respondent is not very knowledgeable about a particular theme or feels uncomfortable to delve into such theme. In other words, interview questions may defer from interview to interview, as questions asked in one interview may be ignored in another.

Another thing to note is the fact that as the one-on-one interview progresses and depending on the flow of the discussion, the order of the listed questions may change intermittently when necessary in order to obtain detailed information relevant to the study. Also, the interviews were audio-recorded in addition to writing.

The qualitative section involves forty-three Semi-structured Interviews carried out with different categories of respondents who have direct connections to foreign investment sectors in Saudi Arabia. These categories of samples are a mixture of foreign investors, senior managers in foreign companies, financial analysts, consultants, economists and government officials. The meeting time was arranged in advance and the interviews were conducted in their homes and offices. The researcher used his connections and published contacts to reach the respondents; which is in accordance with the research of Louis and While (1994) who state that Semi-structured Interviews were designated as a means of gathering information due to two major considerations. First, they are very effective in examining the understanding and views of respondents in multifaceted and sometimes delicate matters; and also enable further investigation of other relevant information and explanations to answers. Second, the various experts, scholastic and individual histories of the samples collected, prohibit the use of a homogeneous interview structure.

4.4.5 Samples Selecting

Investigating the current barriers facing foreign investment requires meeting selected respondents who have knowledge about the topic. The researcher aims to meet these participants to obtain the necessary information on the regulatory, political and economic factors that influence FDI in Saudi Arabia.

The researcher noticed that it is not easy to find samples (respondents) that represent all the foreign companies and sectors in the Kingdom as there are a lot of them. Also, due to the rapid growth of foreign investments in Saudi Arabia, the exact number of companies and sectors in the Kingdom cannot be readily ascertained.

However, the above observation does not in any way affect the validity of this research. According to Mack et al. (2005), even if it were conceivable, it is not compulsory to gather information from every individual in the area before a finding could be valid. In a qualitative research, only a sample (part of a population) is selected for a study. A purposive sampling technique was selected, which is a form of non-random sampling. This technique enabled the researcher to meet respondents who are qualified to answer the research questions. As earlier stated, the interviews involve different categories of respondents from various sectors who are working or familiar with the foreign investment sector.

The researcher chose the purposive sampling method in accordance with Mack et al. (2005) who suggests that it is one of the most popular sampling methods used for assembling samples based on preselected standards relevant to a particular research, which may or may not be static, before information gathering. It pivots around the method, time, and purpose of the study.

Glaser and Strauss, 1967; Mason, 2002; and Spradley, 1980; categorize Purposive Sampling Techniques into six groups, which are designed to achieve representativeness or comparability:

(a) Typical Case Sampling.

(b) Extreme or Non-standard Case Sampling.

(c) Intensity Sampling.

(d) Maximum Variation Sampling.

(e) Homogeneous Sampling.

(f) Reputational Sampling.

The researcher used the Homogeneous Sampling method under the Purposive Sampling Technique to interview people who have lots of experience and knowledge about FDI, regardless of how the samples represent the population or number of FDI in the Saudi market. This technique helped the researcher to focus more on the contents of the study and reduce the amount of time and effort spent (see table 2).

Code	Participants	Position	Sector	Category	Code	Participants	Position	Sector	Category
P1	Samir	Chief Executive	Business Consultation	IC	**P28**	Haron	General Manager	Industrial Sector	FDI
P2	Ahmed	Financial and Accountant Manager	Business Consultation	IC	**P29**	Wasem	Development Manager	Import Sector	FDI
P3	Mostafa	General Manager	HealthCare sector	FDI	**P30**	Wasef	Chief Executive and Owner	Import Sector	FDI
P4	Ahmed	Head of the Industrial Committee	Government Agency	GO	**P31**	Hasan	Financial Manager	Import/ Pharmaceutical sector	FDI
P5	Amar	Financial Manager	Service Sector	FDI	**P32**	Mohamed	Chief Executive and Owner	Service/IT Sectors	FDI
P6	Ali	Chief Executive	Insurance Sector	FDI	**P33**	Mohammed	General Manager	Real Estate Development Sector	FDI
P7	Fadi	Chief Executive for VIP clients	Financial Sector	FDI	**P34**	Esam	Executive Manager	Healthcare Sector	FDI
P8	Bander	Head Manager of Western Region	Government Agency	GO	**P35**	Omar	Financial and Management Consultant	Business Consultation	IC
P9	Hatatn	Former Regional Head	Government Agency	GO	**P36**	Adel	Financial Consultant	Business Consultation	IC
P10	Eajaz	Member of foreign investment Committee	Government Agency	GO	**P37**	Gasan	Regional Manager	Financial Sector	FDI
P11	Mohammed	Chief Executive and Owner	Multi sectors	FDI	**P38**	Suzan	Financial Analyst	Multi-Sector	FDI
P12	Thamer	Chief Executive and Owner	Retail Sector	FDI	**P39**	Mohammed	Chief Executive and Owner	Business Consultation	IC
P13	Atef	Wealth Manager	Financial Sectors	IC	**P40**	Abdulla	Member of a Board of Directors	Multi Sectors	IC/GO
P14	Wadee	Chief Executive	Industrial Sectors	FDI	**P41**	Fares	Chief Executive and Owner	Business Consultation	IC
P15	Mohammed	Chief Executive and	HealthCare Sector	FDI	**P42**	Hasan	Chief Executive	Industrial Sector	FDI

		Owner					and Owner		
P16	Mohammed	Chief Executive and Owner	Industrial Sector	FDI	**P43**	Faten	Chief Executive and Owner	Business Consultation	IC
P17	Adel	Chief Executive and Owner	Financial Sector	FDI	**P44**	Ahmed	FDI consultant in Developing Countries	Education Sector	IC
P18	Fawaz	Chief Executive and Owner	Hospitality Sector	FDI	**P45**	Majed	Chief Executive and Owner	Service Sector	FDI
P19	Yaser	Deputy Director	Industrial Sector	FDI	**P46**	Confidential	Economist Analyst	Education Sector	IC
P20	Saeed	Chief Executive and Owner	Industrial Sector	FDI	**P47**	Tariq	Regional Head Manager	Financial Sector	IC
P21	Sari	Real Estate Advisory	Business Consultation	IC	**P48**	Saeed	Relation Manager	Government Agency	GO
P22	Alhasan	Head Manager of Western Region	Business Consultation	IC	**P49**	Awad	General Manager	Government Agency	GO
P23	Meshal	Resident Manager	Hospitality Sector	FDI	**P50**	Amar	Chief Executive and Owner	Food Manufacturing sector	FID
P24	Zyad	Chief Executive and Owner	Real Estate Sector	FDI	**P51**	Mohammed	Tax management Consultation	Business Consultation	IC
P25	Neazer	Head Manager	Logistic and Shipping Sector	FDI	**P52**	Mohammed	Senior auditor	Business Consultation	IC
P26	Azah	Executive in transaction Department	Business Consultation	IC	**P53**	Mohand	Financial and Auditor Senior	Business Consultation	IC
P27	Saad	Chief Executive and Owner	Industrial Sector	FDI					

Table 2: The Codes of Participants and Sectors' Categories.
FDI: Foreign Direct Investment, **IC:** Independent Consultant, **GO:** Government Official

4.4.6 Sample Size

The researcher did 43 real interviews (using the Semi-structured Interview method), and 10 Pilot Interviews in order to examine the interview questions before starting the real interviews. Both interview methods were utilized by the researcher in the Analysis and Discussion Chapter (53 interviews) to answer the research questions (see table 2 and 3). As Wilmot (2005) states, an example of the size of a qualitative examination should be about 20-40 individuals, if it is a one-on-one interview; but if it is in a group session, there should be about 60-100 people; with questions asked in according with the research queries and purpose.

Overall Participants	**53**
Independent Consultants	18
Government Officials	7
Foreign Investors	29

Table 3: The Classification of Participants

Sector Classification	**Number**
Business Consultation	13
Industrial Sector	8
Government Agency	6
Financial Sector	5
HealthCare sector	3
Service Sector	3
Import Sector	3
Multi Sectors	3
Hospitality Sector	2
Real Estate Sector	2
Insurance Sector	1
Retail Sector	1
Logistic and Shipping Sector	1
Education Sector	1

Table 4: The Classification of Sectors

4.4.7 Secondary Data

In this research, the researcher has gathered the changing figures of a number of economic factors over a 30 year period. This data will enable the researcher to evaluate the impact of such factors on FDI in Saudi Arabia through the same 30 years period, and then integrate the outcomes with the results of Semi-structured interviews.

The researcher has studied keys factors such as the GDP/Capita and the total reserves with FDI%/GDP).These factors have been selected in order to show the trend in the general relationship over the above stated period of time, as their impact on FDI cannot be studied through Qualitative Interviews.

The researcher utilized a number of reputable national and international publications in order to add credence to the research and maximize time. Although the publications were for different purposes, the researcher used them to study the influence of certain factors on FDI in the last thirty years.

4.4.8 Alternative Research Methods

One of the survey strategies that could be used for research in order to collect a large amount of data from a sizable population is the Questionnaires. This strategy would save time, energy, and yield quick results if a software application is used. The Questionnaire method will be successful in examining the impact of economic policies on FDI. However, this study requires deep analysis of critical issues (the effect of government policies and political issues on FDI) that need in-depth interviews. Using the Questionnaire requires contacting a large number of participants in order to have good knowledge of their thoughts and beliefs, but this poses some difficulty especially due to the personality of the respondents (high-level personnel) required to be contacted in this study. The Questionnaire will add value to the research when applied alongside the in-depth interviews.

The Focus Group Interview is another alternative method that could be used to collect data. This method provides a wide range of information with comprehensive arguments that improve the discussion segment of this study. This method has the potential of making respondents change their opinions on some essential issues such as nuclear programs and a possible change in economic policies, as it will be difficult for them to do that during one-on-one interviews. However, this method cannot be applied in this research because of the difficulty of gathering such high-level personnel at a place and at the same time. Furthermore, the Focus Group Interview method is time-consuming because of the debate and argument involved, therefore, it is not a good method for the selected sample (high-level personnel) – though, this method can add value to the research, alongside the one-on-one interviews.

4.5 Research Credibility

In order to ensure the credibility of the research findings, different reliability and validity measurement tools were employed to test and examine the credibility of the qualitative results.

4.5.1 Reliability and Validity of Qualitative Research

A wide range of expressions in qualitative studies defines the concept of validity. Validity does not have a general concept, neither is it fixed nor does it stand alone; rather, it is a contingent construct, inescapably grounded in the processes and intentions of a particular research methodology and projects" (Winter, 2000).

Creswell & Miller (2000) propose that validity is ascertained by the researcher's definition of validity and their choice of paradigm assumption in the study. Accordingly, numerous researchers have established their own ideas of validity and have frequently accepted or implemented what they believe to be a more suitable expression, such as in value, accuracy, and honesty.

The researcher also applied the Member Checking Method by asking respondents (informally within the interviews questions) to give a review of the statements or opinions obtained from previous interviews. For example, the researcher tested the different views on how FDI can be affected by the high level of bureaucracy inside the government sectors and the expectation of any change in economic policy. This method helped to examine the reliability of qualitative research. This is in line with Denscombe (2008) who states that participants answer questions in various ways depending on the influence of the interviewer and how they view the interviewer. Specifically, the gender, the age and the ethnicity of the interviewer can affect the reliability and quantity of information people are willing to provide.

To overcome this probable bias, the researcher had to interview different categories of respondents ranging from foreign investors, government officials and independent consultants in order to explore difference opinions and to create a balance among the various groups that may either condemn or defend government policies on FDI. Also, the researcher met with different categories of foreign investors who belong to different sectors to obtain more answers and opinions. The use of this Self-disclosure Method enabled the researcher to test the validity of the research and to ignore any biased answers or opinions.

This method is supported by Gomm (2004) who defines the considerate attitude of an interview as a "Fact-producing interaction." From another viewpoint, one can contend that 'facts' are always socially formed and the influence of a skilful researcher can make respondents to wittingly or unwittingly provide additional answers or opinions which they would not have provided in normal circumstances. Concerning more private interviews Gomm (p.230) says: "The argument is that, only by developing intimate, trusting and empathetic relationships will respondents feel able to disclose the truth." Gomm (2004) proposes that this is not a valid argument, and researchers have resorted to evaluating success based on changing participants. It is the strength of Semi-structured Interviews that deliver unique opinions that can be used to build research descriptions that give the technique its vital feature.

In the reliability test, the researcher had to apply some techniques to minimize the level of participant error. For example, the researcher arranged an appointment with each of the respondents in advance, choosing a place and time that is convenient for the respondent.

The data used in this study were provided and published by highly reputed and certified national and international organizations such as Saudi Arabian Monetary Agency, Department of Zakat and Income Tax, Ministry of Economic and Planning and Trading Economics, Stander Trade Report, US Department of State and Index Mundi. These organizations give greater transparency and reliability to the quality of data collected in this research. Additionally, if the same data is obtained by another researcher and processed with the same techniques used in this research, the results and observations would be similar to what has been found in this study.

4.6 Research Ethics

This research was done in accordance with the Ethics Regulation of De Montfort University. The researcher submitted the Ethics Form before conducting the interviews.

The participants in this study are volunteers based on informed permission. This gave the participants the unrestricted freedom to answer questions and to withdraw at will.

The identity of the participants is protected by representing them with codes. The anonymity of the respondents protects them in the case of any reported information culled from the interviews.

The privacy of the participants is duly considered and protected. During the one-on-one interview with each respondent, the researcher ensured that the respondent was alone (or had no irrelevant people around) in order to guard against external circumstances that are capable of affecting the credibility of the answers provided by the respondent. This 'restricting' rule is necessary to make sure the participants discuss at ease without being harmed or fear of being harmed.

The data and records obtained in this research are safely stored in external devices with every other protection rules duly applied. The participants were also assured that the data would be secured and used only for academic purposes without passing it on to third parties.

The participants were motivated to share their thoughts and convictions on the discussed topics. Some of the political questions in this research are very sensitive; therefore, the researcher did not compel or force the respondents to answer questions they do not feel comfortable with. Rather, participants were given the liberty to answer or refuse to answer any questions. This system was applied because the culture and custom of the people do not allow them to make statements on political issues, especially to a stranger, as they do not have the liberty to criticize government policies. Thus, the researcher designed the questions in a way that it is more convenient for participants to discuss at ease. Another thing the researcher did was to give participants a foreknowledge of what the interview and research are all about; and as mentioned before, assuring them that every information obtained will be used for academic purposes only.

The data obtained has been duly processed and analyzed to eliminate every biased opinion. The Analysis and Discussion chapters contain the debates among participants. The arguments have been addressed and linked with literature to add credence to the study. In order to minimize the level of plagiarism, the researcher made sure this research was done personally. The researcher also acknowledged the authors of the various pieces of literature and other external materials used in this research to enhance its credibility.

4.7 Summary

In this chapter, we have learned the methods and processes applied in this study. The selected Research Methodology has been carefully chosen in order to get accurate results that meet the objective of this study and answer the research questions. The key points are summarized thus:

The Research Onion concept was applied as a guideline to the Research Methodology. The key factors of this concept have been considered to ascertain which procedure is suitable for collecting and analyzing the relevant information and figures.

The Research Philosophy of this study involves different ways of thinking, which can be called Critical Realism. The Deductive and Inductive Methods are the combined Research Approaches used in this study.

Qualitative Data Analysis was applied to this study as the main source of the data. The Exploratory Study technique was chosen in order to conduct in-depth interviews of the qualitative data section. The Exploratory Study method relies on Pilot Study and Semi-structured Interviews to collect and validate data.

The reliability, validity, and credibility of data obtained through this research have been established through the use of diverse methods such as; member checking method, self-disclosure method and obtaining relevant information from nationally and internationally recognized organizations.

Finally, a number of ethical instruments and tools were used to ensure that this study meets the Ethics Standard for a Research Degree at De Montfort University.

In the next three chapters, the outcomes and results of the in-depth interviews will be discussed. The next chapter will discuss the results of the Regulatory Factors. These results were obtained through in-depth interviews that were conducted with selected respondents.

CHAPTER FIVE: THE ANALYSIS OF REGULATORY FACTORS

5.0 Introduction

This chapter is intended to provide insight to the results and findings of the qualitative interviews regarding the regulatory factors of the Saudi Arabian market. This discussion will focus on the themes extracted from interviews, with the goal of pointing out several benefits and drawbacks of investment in the Saudi market. The chapter will discuss the investment climate in the Saudi market, general barriers to foreign investment in the Saudi market, the main targeted sectors of foreign investors, as well as methods of penetrating the Saudi market and dealing with existing government agencies.

5.1 Investment Climate in Saudi Market

The participants of the interviews agreed that Saudi Arabia has proven over the past decade (2005-2014) that it has stability and a number of other attractive factors, including lucrative oil prices, the amount of total reserves, and the size of the country in terms of accounts for investment and high purchasing power. The majority of the participants believe that Saudi Arabia is a perfect candidate for foreign investment, and if existing systems are redesigned such as to allow easier access into the market, then Saudi Arabia will attract more foreign investors. For example, the King Abdullah Economic City (www.kaec.net) is an existing realistic model that has begun to see fast growth in terms of global and foreign investment in owned properties.

"I think the energy in Saudi Arabia is very inexpensive, and in addition it has a strategic position that links the Red Sea and the Arabian Gulf; The facilities that are provided by the government, the low taxes and price of industrial lands for all categories of investors both locals and foreigners, are all very acceptable and attractive" (P19)[1].

Many participants believe that Saudi Arabia has many investment opportunities. Many investors would like to enter the Saudi Market because of the strong economy between 2005 and 2014, and the positive political environment, which translates to stability for their projects and their business. An example of such an investment opportunity can be found in the strong consumerism that is exhibited by many Saudi citizens. This means that the market will always be open to large quantities of foreign products, and has the potential to establish numerous projects and other establishments in the process, this fact meets with view of Abdel-Rahman (2010). The Saudi market from 2005 to 2013 was in a very large growth stage, especially in the construction and infrastructure sectors; this can also be considered an attractive factor for foreign investment. This supported by participants *(P23, P24, P26, P29, P42, P44 and Ibrahim (2013).*

"It can be realised that the level of the market is very high and now is the right time to invest in the Saudi market. Recently, Saudi Arabia is the only country in the region that has sufficient liquidity, investment and government spending with the support for major foreign investment. Since 2005 the country has had a significant economic revolution that aims to improve life in terms of education, health, industrial development, and increasing investment - so it is the right time to come and invest in the country" (P29).

1 See table (2) Chapter (4) Page (104-105) the code of participants and categorizes' sectors

Furthermore, participants all agreed that the 9/11 attack caused some changes in Saudi Arabian economy, with Saudi Capital market making the most contribution, followed by different sectors like construction, insurance and health with Saudi's government pumping in more money into building up the country's infrastructure (Almeshal and Albahoth, 2004).

Investors from all over the world have found investing in Saudi's economy very attractive. One reason for this is the industrial infrastructure the city provides them with. The number of industrial cities in the country has grown from 6 to 36, showing the country has made giant strides. Lands in Saudi Arabia are very available, with energy cost being very low. The country has a very favorable location, being located between the Arabian Gulf and the Red Sea, thus making exports to places like the United States, China, Africa and Europe an attractive investment *(P11, P13, P17, P20, P32 and Khathlan (2014))*.

> *"In general, Saudi Arabia is the most attractive country in the region for FDI, due to its massive infrastructure, the capacity of industrial cities that have been increased from six cities to 36 industrial cities around the country" (P14). "The Saudi Market can be recognised in its growth stage, in particular the infrastructural and real estate sectors, which attract foreign companies to come and invest in the market" (P24).*

It has been anticipated that the government will in the future give more attention to manufacturing industry, in a bid reduce dependence on oil while also diversifying the country's economy. The government has been implementing plans marshaled some 25 years ago aimed at diversifying the income stream of the country (Haj-Kacem, 2014).

It has also been observed that a significant number of investors who choose to do business in Saudi Arabia do not only seek to make profits, but to also provide culturally ideal living condition for their family members. This trend is more common among Muslim investors who came all the way from the United States or Europe. Most decide to settle with their families in Saudi Arabia as they find the Islamic environment conducive. One other point of attraction is that Islamic pilgrimage is held in Saudi Arabia. Pilgrimage activities in Saudi Arabia attract so many people who come into the country for spiritual purposes alone.

> *"Statistics has shown that most investors outise Saudi Arabia come for other reasons other than investment. Some of them include; family and other personal purposes. In truth, most of the investors want their children to be brought up in an Islamic Society, and living in Western Countries like USA or UK won't offer them such opportunity" (P17)*

5.2 Obstacles to Foreign Investment in Saudi Arabian Market

The first part of the interview questions concentrate on the main barriers and attractions of investment the Saudi market, when asked to answer the question; *"In your view, what do you consider as the main barrier to foreign companies coming to invest in Saudi Arabian Market?"* most participants were of the view that authorities in Saudi Arabia needs to create a clear vision when it comes to attracting foreign investors. According to *participant (1)* one way they can do this, is to provide relevant statistics and figures which serves as a proof that the Kingdom is one of the best places foreign investors can put in their money. Emphasis must be laid on quality not quantity.

One of the major stumbling block to attracting foreign investors into Saudi Arabia is the policy which impedes recruitment of foreign workers. Added to that, the paperwork a foreign investor will have to go through in securing a commercial or industrial license is cumbersome. This problem isn't exclusive to foreign investors alone as local investors are affected as well. In the end, money and time is wasted. Even though the government is making substantial efforts in attracting foreign investors, the investors themselves aren't too willing to come knowing fully well that factory spaces are limited. Though they may get the license to set up a factory, finding a place to build one is the problem (Hafiz, 2009).

The participants were also of the view that these unfriendly policies are as a result on incompetent administrators who are responsible for drafting rules and regulation on behalf of the government. They believed the administrators lacked the knowledge to draft laws which accommodate foreign investors.

> *"The biggest problem confronting foreign investors is the unfriendly policies and absence of smooth working relationship between government and ministries. Each ministry and government department has its own set of policies, thus leading to disruption of the entire process. The Ministry of labor has its own peculiar challenges which leave to unclear objectives. The policies are just too rigid for foreign investors. To register a company or secure a working space, an investor will have to wait for a very long period of time (causing waste of money)." (P12)*

> *"Over the past 30 years, the private sectors of Saudi Arabia have developed at rapid pace; the government sectors on the other hand haven't made any meaningful development during this period" (P13).*

> *"A good number of investors have plans of moving from Arab spring countries to do business in Saudi Arabia, but the complex nature of the business market has kept them from doing so" (P5).*

Furthermore, polices and guidelines which are meant to be accessed easily by investors, are difficult to access. They end up paying huge sums to lawyers to get access to the information.

"When a foreign investor approaches Saudi Arabian embassy to request for guidelines for doing business in Saudi Arabia, such an individual will have to depend on the personal diligence of an employee of the embassy, instead of going through laid down systems. Added to that, information relating to trade and investment opportunities in Saudi Arabia is scarce, unlike other neighboring countries where such information is abundant." (P40)

More also, the new FDI concept implemented by Saudi Arabian government has complicated the legislation for foreign investment, with most foreign investors having a difficult time when processing litigation or filing a law suit.

The legal system has never been stable as it keeps changing all the time. It is the responsibility of the investor to abide by a new law once it is issued. Even if an investor holds a valid license, the validity of that license is lost once a new law is passed, and this has caused great loss on their part. Foreign investors often have to go through harrowing times as new laws forces their plans to change, leading to heavy cost with increased risk on the part of the decision makers of the company. This fact has met with view of Hafiz (2009)

"The first issue is the foreign investors are shocked by the conflict of regulations and rules, also the frequently changing rules" (P23).

Another major obstacle by participant that has been identified by participants is the criticism of foreign investment by local media. This has made Saudi Arabia unreceptive to foreign investment; leading to many investors taking their money to other countries.

"There are two sides here; one side is pushing for closure of foreign investment, while the other pushing for its opening. Some are of the view that foreign investors are only interested in carting away Saudi Arabia money to their home country. This view has to change because foreign investment will do the reverse for the economy;

boost it. Criticism laid on local media on foreign investment has caused more restriction on foreign investment; making foreign investors vulnerable to change of policy" (P17).

"The media has always been biased against foreign investment. They have gone all the way in denouncing them and this has caused the people to detest the idea of foreign investment." (P17)

Due to inconsequential low-end foreign investment that did not add extra value to the Saudi economy, which has found its way into the country in past years, foreign investment has received more negative view from people. This means the laws that have been legitimized by relevant authorities can be manipulated at any time. This has caused further decrease in FDI movement.

"It now takes more time for investors to receive their license, and this concept has its own advantages and disadvantages. The advantage here is that the concept allows the country to maintain a stable and long-term investment. The disadvantage comes from investors staying away from future investment due to heightened regulation. It is important for any new concept or policy to positively influence current investments" (P29).

Another identified obstacle to foreign investments is the lack of e-solutions. Other neighboring countries of Saudi Arabia such as UAE and Qatar have robust internet solutions for foreign investors. As the Saudi Investment Authority has failed to provide e-solutions, doing business has not been favorable for foreign investors.

One other challenge confronting foreign investors is lack of familiarity of Saudi's culture and regulation. In the end, foreign investors are uncertain of what to expect from the new culture and people they have to work with.

The government has never relented in putting in efforts to sectors like tourism, and this hasn't attracted investors. The challenge is this; the people of Saudi Arabia are conservative in nature. In addition, as at 2005, the biggest challenge confronting foreign investors was language barrier as all needed information were written in Arabic without any form of English translation.

> *"My assumption is that there are lots of uncertainties in Saudi's culture, with unfamiliarity abounding in rules and regulation and the overall perception of the Saudi people" (P22)*

Furthermore, according to *participant (25)*, there have been inadequacies in infrastructure, as logistics companies use trucks instead of trains. It is not only the logistics sector that has been affected by inadequacies in infrastructure, other commercial and industrial sectors have been affected as well. To solve this problem, the government has to outsource infrastructure projects such as the new railway project to foreign contractors, as they have what it takes to efficiently deliver.

Another obstacle was identified to foreign investments by *participant (21)* is the lack of e-solutions. Other neighboring countries of Saudi Arabia such as UAE and Qatar have robust internet solutions for foreign investors. As the Saudi Investment Authority has failed to provide e-solutions, doing business has not been favorable for foreign investors.

Added to that, foreign investors have been denied the right to invest in pilgrimage business such as Umrah and Hajj, and this is contained in the WTO agreements. Foreign investors have also been banned from investing in security and military. Production of alcohol and liquor is forbidden in Saudi Arabia (Khyeda, 2007).

There is a further question that needs to be answered for foreign investors to confidently do business here; *is there cheap and well trained labor in the country?* Most of the participants were of the view that this combination can't be found in Saudi's Market. This leaves foreign companies no choice but to employ expats instead on local workers. Going for this option will cause the major goal of FDI to be lost; recruiting local labor and then training them to benefit the country.

> *"Saudization has become a major obstacle to FDI, and this has caused foreign investors to move to other countries with their money" (P24)*

5.3 Targeted Sectors of Foreign Investors

Participants have answered the question *"What are the sectors of Saudi's economy foreign investors have to lay their focus on"*, in different ways.

It has been observed that investors prefer to do business in industrial areas because of strategic location with high number of ports which aids export. One other benefit this locations offer is low cost of raw materials, such as fuel and petrochemical productions as they are available in Saudi market *(P14).*

The government has given support to local businesses that manufacture products locally. This strategic move has spurred inflow of foreign manufacturers to set up production facilities in Saudi Arabia. This has gone a long way in stimulating Saudi Arabian Economy, as the industrial sector continue to experience growth. More also, employment opportunities has increased for local labor, leading to the reduction of foreign currencies out of the Kingdom when industrial products are being sourced *(P4, P31, P14, P19, P29 and P51).*

> "*My assumption is that foreign investors will rather put their money in the industrial sector due to the magnanimous support it receives from the government" (P29)". "Currently, the industrial sector can be seen as the major sector of the economy thanks to cheap energy and availability of raw materials. One other attracting factor that has caught the attention of foreign investors is the high purchasing power of the country" (P4)*

The participants opined that investors are putting in their money to manufacturing and petrochemical sectors due to the support it receives from government. It is believed that sectors like transportation, real estate and service will soon follow suit *(P11).*

Saudi Arabia is one of the largest producers of crude oil in the world, with a good amount of this oil sold within the local economy, thus making energy cost low. Furthermore, Saudi's petrochemical industry is very competitive in the global market, being on top of the ranking matrix.

> *"Petrochemical products coming from Saudi Arabia are sold at a more competitive price owing to the availability of needed raw material, and this has made Saudi's petrochemical products penetrate international markets" (P44).*

Some of the participants are of the view that the petrochemical industry has grown solely because of the government support that provided low price of fuel to this sector, comparing with other industries like glass, textile, iron and steel receiving very little government support, thus keeping their energy prices high. Added to that, these industries do not receive raw materials at low prices just like the petrochemical industry.

"Most of the industrial cities have large petrochemical processing facility, and this has gone a long way in attracting other industrial investors" (P25).

"Saudi Arabia is one of the largest producers of oil, with this oil being sold within the local market, thus pushing down the prices of petrochemical products. One can then confidently say that Saudi's petrochemical industry has the capacity to compete in global market" (P44).

"The petrochemical sector has received the highest attention from FDI due to the country's high level production of oil. The sector has been particularly found attractive by FDI as there are already several buyers willing to buy petrochemical products coming from Saudi Arabia." (P6)

In a twist of events, some participants believe that the petrochemical business funded by investor's money is largely mechanized and not labor intensive, so this sector adds little value to Saudization.

In addition, the participants opined that authorities need to put in more efforts to the petrochemical industry to attract local investors. However, they strongly advised investment authorities to avoid linking up this sector with foreign investment, as Saudi Arabia has over the years developed expertise in oil field exploration.

"40 years of oil exploration and production has afforded Saudi Arabia vast experience unlike most other countries. For this reason, it is very unlikely a foreign investor will be willing to invest his or her money in this sector" (P1).

"Most of the staffs employed to operate this facilities, are foreign expats. Added to this, projects with low cost (in the range of a billion riyals) are financed by local banks, with investors bringing in just a tiny fraction of the money. In the end, there is

just a limited amount of external funds with a handful of local manpower being employed. Foreign companies that operate in this sectors make use of technologies which is exclusive to them, and which they withdraw once the validity of their license terminates" (P27).

Numbers of the participants were of the view that the infrastructure sector with strong emphasis on construction, electricity, water and train stations receive the most attention. This is because the huge amount of money the government was spending on this sector has brought about rapid growth.

"Dominant contractors in the country are few. As a matter of fact, the capacity of local contractors isn't enough to meet with the demands of government projects. As the government has very limited time to implement these projects, several doors of opportunity have been opened to foreign contractors" (P37).

"*As demand continues to grow, the construction and infrastructure sectors have become the most targeted" (P23).*

"From what I have experienced so far, I can confidently say that the construction sector has received the most attention from FDI" (P53).

Not all participants agree with this. They were of the view that even though the construction sector has been the prime target of investors, *Saudization* law which was recently passed into law has made it difficult for investors to obtain license investing in metal and chemical sectors due to the shortage of Saudi workforce in this field *(P17)*.

Some other participants opined that the real estate sector is the best sector investors should invest in as it has experienced rapid growth owing to the 4% population growth the country experiences every year.

"This is a substantial figure especially when you consider the fact the young Saudis within the age bracket of 18 and 25, is 65%. This has led to the demand for housing far outstripping supply. One can then rightly conclude that the real estate sector is yet another attractive sector investors should look to" (P13).

"*Owing to rapid development in real estate, the country has been inundated with high demand for real estate, and this has become a huge investment opportunity for investors" (P6)*

Nevertheless, the real estate sector has its own share of challenges. Securing land in Saudi Arabia is very expensive, far exceeding the cost of securing land in neighboring country such as Gulf countries *(P33).*

Some other participants were of the view that the entertainment sector in the likes of eating, drinking and restaurants will be the best option for investors as there is a few of such in Saudi Arabia now. You won't find cinemas, amusement parks and theaters anywhere in Saudi Arabia.

"I advised that the government should put in more efforts to the entertainment industry due to the large potentials it has" (P52).

"I suggested that recreational centers like Disneyland, be built in key regions in the country and then given names like Islamic Disneyland which makes it easy for Muslims to identify with. All activities there should conform to the tenets of Islam, and Islamic stories of great men and women should be told there. Most Saudi Arabians irrespective of their inclination will most definitely accept this idea, thus opening up more investment opportunity for foreign investors. To lure more investors, focus

> *should be focused on tourism, visitors should be encouraged to visit the Holy Mosque, and the Prophet's mosque should be made accessible" (P35).*

Another sector with high potentials is the retail and trading sector. Other than being very profitable, it has one of the least capital cycle time *(P2, P5, P22 and P26).*

According to *participants (6 and 24)* investors often stay away from sectors that receive little financing. In previous years, financing had been provided by JPC and Citibank in partnership with Samba British Bank and Saudi American Bank. This has made the finance sector a potential investment opportunity as funding for all Saudi's project is provided by only 8 banks. This finance can only be accessed by large corporations, clearly leaving out small companies.

The service sector is yet another potential investment opportunity for foreign investors. The United Arab Emirates for instance can be seen as a small country when compared to Saudi Arabia, but it has achieved huge success in logistics business *(P11, P32, P33, P41, P45 and P51).*

> *"When it comes to location, Saudi Arabia is at vantage point over United Arab Emirates as the UAE is situated farther into the Gulf, but Saudi Arabia has plenty of sea ports both on its east and west side. The service sector will therefore be the investment of the future in Saudi Arabia" (P41).*

The health and education sector, are sectors that have experienced rapid growth in the past few years majorly due to population growth. Even though the sector is yet to reach its full potential, it has been anticipated that the young population of Saudi Arabia will stimulate further growth in this sectors *(P3, P6, P9 and P41).*

5.4 Ways of Penetrating into Saudi's Market

In an attempt to find answer to the question; *"What do you consider to be the most effective method for penetrating Saudi's Market for FDI?"* three critical investment types come to the mind. One is international trade (importation and exportation), the other is franchises and concession contracts (joint manufacturing), while the last is (direct investment). Each of this investment type has its own pros and cons. Even though investment authorities have opened the doors to foreign investors, but most will prefer partnership as it spurs investors to do more (Abdel-Rahman, 2010).

Most of the participants (90%) were of the view that traditional approach (partnership with local firms) is still the best for foreign investors seeking to do business in Saudi Arabia. This is because a good number of companies that adopted a traditional approach are now counting their gains.

> *"Having a Saudi Partner adds some form of value to foreign investors entering the country. This is because such an individual understands all details of Saudi Arabia. Let's assume an investor has plans of investing in New York or Australia, the very first thing to do is to hire the service of a trustworthy partner who will provide all needed information about the market, thus helping the investor determine if New York or Australia will be the best pave to invest. As Saudi's market keeps expanding, the best thing to do it to find a partner who is knowledgeable about Saudi's Market" (P13).*

> *"A foreign investor will definitely need the assistance of a Saudi Partner, as they will help them scale through government bureaucracies. They will also help create a positive impression of the investor on the community who are already biased" (P23).*

"The core reason for working with a partner is to have proper understanding of the market. Such a partner must have the skill in dealing with government department. For an export company, the partner they work with should provide customer database. The challenge sometimes, is finding the right partner" (P18).

"*It is important to work with a partner because government officials are unrealistic in their expectations from foreign investors following the implementation of Investment Laws which have made it possible for investors to easily find their way into Saudi Arabia. However, this approach is unrealistic having so many protocols. The best thing to do is to work with a local partner" (P41).*

On the other hand, few participants were of the opinion that cutting out Saudi partnership when pursuing direct investment will be the best option for an investor. Every foreign investor needs to receive some sort of support abroad. Foreign companies has all it takes to overcome internal hindrances while adapting quickly to changing market basically due to the support and cooperation they receive from outside companies. Added to that, the tax system for FDI is simple to navigate through.

"For every 50% or more that is invested, tax is reduced. This bold move has attracted lots of investors" (P33).

"*In my view, I believe the best way to best entry route to Saudi Market is by creating a foreign company with an international license, thus avoiding the need to go through local partnership. This move alone can attract more investors who will be willing to move into the capital with their money as well as technical know-how which is in dire need now. In the United States for instance, the bulk of investment comes from FDI; this is a typical example of how FDI can greatly improve an economy" (P47).*

To conclude, the simplicity of entry into any sector is dependent on investment size and sector. For instance, large petrochemical corporations will have to consult with the government directly before getting established. Small and medium scale companies will have to go through industrial or commercial partnership before setting up their business in Saudi Arabia. A local experienced partner who has experience in dealing with different government sectors will add some value to the business *(P37 and P40)*.

5.5 Government Agencies

In the course of the interview, two major questions were asked to participants in a bid to understand the efforts the government has made so far in attracting FDI; *"In your own opinion, what major efforts has the government made to attract FDI?" "Why do you think some people believe some government departments have been hindering FDI?"*

The participants had agreed in the past decade, the government of Saudi Arabia has made relentless efforts in improving economic policies, investment regimes and social system, with a goal of making them fit international standards (Aleqt, 2006).

> *"The government has partnered with investment authorities in providing the needed support for FDI; and the aim of this partnership is to create a conducive environment for foreign investors" (P8).*

> *"UAE has the best destination within the entire Arabian country to attract foreign investments, with Saudi Arabia following closely. After the creation of Saudi Arabia General Investment Authority "SAGIA" by investment authorities, the expectations of investors have soared, as they anticipate the creation of more facilities that will help ease business. It is hoped that all this facilities will be placed in one place to aid ease of transacting business with government (One Stop Shop)" (P33).*

The participants were in view the Ministry of Labor and Ministry of Commerce have implemented effective changes in policy, which has gone a long way in improving the relationship the Ministries, have with investors. These changes have become very evident today, and it can be seen by everyone. The government has taken this measure as a way of attracting more investors. To make work less cumbersome and faster, the government has moved away from paper-based work to digital processing.

> "*A wind of change has swept across the Ministries of Saudi Arabia, with Ministry of trade undergoing transformation in a bid to attract more investors. This wave of change has assured investors that the government of Saudi Arabia has solid plans of developing all necessary institutions by changing all that needs to be changed and then switching from paper-based government to digital government" (P12.)*

> *"One of the most attractive investment locations is King Abdullah Economic City near to Jeddah. King Abdullah Financial District located in Riyadh, is yet another attractive investment location, being the wealthiest capital city in Middle East" (P21).*

Following the facilitation of licenses, more investors are beginning to find their way to Saudi Arabia. Most barriers have been pulled down, with more facilities created.

> *"Saudi Arabia ranks among the top 20 countries where foreign investors prefer to invest. Lots of scholarship opportunities have afforded many students the opportunity to study overseas. The goal is to make them fit to work in local and international companies once they are done with their study. Investors have found this program very attractive" (P1).*

> "*Following the creation of foreign investment policies, investors have found it easy to do business in Saudi Arabia, as market barriers have been pulled down, Saudi*

Arabia's law becoming more flexible, and the system now accommodates the unique needs of foreign investors. In the wake of this transition, the government as well as investors has seen the need for change" (P32).

However, some participants believe government has only made moderate efforts. They cited Canada whose government has made relentless efforts in promoting business opportunity in Canada. Canadian government has also taken education of its citizens seriously.

When comparison was made between Saudi Arabia and Qatar and Dubai, it was discovered that the Kingdom is lagging behind. Some foreign investors, who have businesses in Saudi Arabia, still go to UAE to do business.

"When compared with other attractive investment destination, investors have discovered that it is easier to establish a commercial or industrial business in Dubai, notwithstanding the high cost of living in that city. Dubai is most definitely a more attractive investment destination" (P16).

"*During the first period, foreign investors were comfortable doing business in Saudi Arabia, but when things started falling apart, they packed their money and went to other countries. During the first period, any investor can simply come into the country and start business no matter how small the amount may be. Starting out on a small investment was a good way to test out the markets of Saudi Arabia, before deciding to go on full scale" (P17).*

Some participants were of the view that FDI should do more of transferring knowledge than creating jobs. Investment authorities at first created opportunities for large scale investment without caring much about quality.

“Investment Authorities have accepted investment projects from investors coming from developing countries, knowing fully well that they don’t have an infrastructure system. This system will definitely not work well for Saudi Arabian Market being a high economy country” (P1).

5.5.1 Performance of Government Agencies in FDI Files

Investment is an issue which concerns all government ministries. It goes beyond obtaining a license, or processing entry visa. It is important for investors to acquaint themselves with all regulations; particularly Zakat (religious tax). The problem however is that there is a gap in most of these government agencies (Aleqt, 2006).

Some participants were of the view that proper training of government staff has to be taken very serious. It was discovered that most of the government staff were inadequately trained. This makes them unfit to work efficiently in countries like Malaysia or Dubai. Furthermore, they opined that employees should further be enlightened on the importance of FDI, and ways it adds value to the economy.

“The majority of government employees have their outdated thinking, making it difficult for them to embrace change. This has also been identified as a major barrier to FDI” (P20).

“I totally agree that government bureaucracies have been a major barrier; however, the people behind these bureaucracies are the barrier themselves as they are inadequately trained to meet with the realities of today, thus making them complicate things the more” (P14).

Added to that, foreign investors have been banned from investing in sectors like education. There is no regulation for investors who wish to enter this sector. What steps should foreign investors take then? How are they supposed to work? Do they have to consult with ministry of education before getting license, and then proceeding to department of investment?

> *"As a matter of fact, the ministry of education hasn't really opened its doors to foreign investors, making it difficult for them to obtain license which is needed for investment" (P26).*

In addition, the Ministry of Health has to open its doors to foreign investors. There is a good chance that Ministry of Health has made more progress than other government sectors, owing to the fast pace at which it processes investment requests. The Ministry of Mining has placed certain limitations on investors who wish to invest in this sector *(P26).*

Participants have pointed out complex protocols which is time consuming, as a major barrier to FDI. It can be felt in every government sector.

> *"There is an obvious discrepancy in most government sectors and ministries. For instance, the regulation of the industrial sector is way different from that of the agricultural sector, the regulations in industrial sector are easier and flexible" (P25).*

However, number of participants believe that most government sectors have not given a positive impression. In this modern era, it is important for the government to adopt e-solutions just like most other countries that have dumped paper work for e-solutions.

> *"If the government agencies decide to adopt electronic system for its business dealings, life will become easier for foreign investors" (P21).*

> *"More also, investment authorities have created regional one-stop shop facilities for foreign investors. Other than integrating all government sectors in one place, investors can now also access professional services" (P7).*

However, some of the participants were of the view that management and government policies in these one-stop shops are vague. There is no streamlining and standardizing of different government departments' material and absence of clear coordination. The chief investment officer lacks authority over the concerned government departments.

Some investors who were interviewed asserted that the Investment Authorities were only interested in reaping off tax money from them. They required them to pay certain amount of fee for every application. This has made them believe that investment authorities were only interested in earning money off them, than being of help *(P20, P35 and P45).*

> *"I will really be glad if I could be given the opportunity to finish my paperwork at investment authority (one-stop-center) as doing so will save me plenty of time. Right now, I am left with no choice but to book individual appointments which costs me 1000 Riyal as against 200 Riyals in time past" (P42).*

However, some participants saw the opposite; they believe investors should take some responsibilities such as understanding Saudi's market and having government sectors approve their application.

> *"As certain challenges have made it difficult for foreign investors to obtain their license, it is their responsibility to seek needed documents through supported offices. The problem however, is that some of the offices have very little knowledge of the regulation guiding Saudi's market, thus complicating things for investors" (P3).*

5.6 Summary

The bulk of this chapter has dealt with rules and regulation guiding FDI. The nature of the Saudi market has been discussed extensively and major investment opportunities have been highlighted. Saudi's economy has also been discussed alongside sources and locations.

In the course of the discussion, major barriers which have for years hindered foreign investors from penetrating Saudi's market, have been identified, and their influence on projects discussed. So many barriers were identified, with government bureaucracies with old fashioned being the most prominent. Another identified barrier is the conservative nature of Saudi Arabia, making them unreceptive to Foreign Investment. This has been fueled by a negative image of FDI projected by local media in Saudi Arabia.

The discussion examined all sectors, with an aim of understanding how each behaves. Several factors and features influenced the choice of the targeted sector, with method of entrance being the most prominent.

Lastly, the discussion led to how all the different government sectors that had dealings with FDI performed, considering the strength and weakness of the rules and regulation adopted by investment authorities.

In the next chapter, the analysis and results obtained after studying political factors will be discussed. Also, the next chapter will present results obtained after a semi-structured kind of interview conducted to obtain qualitative data.

CHAPTER SIX: THE ANALYSIS OF POLITICAL FACTORS

6.0 Introduction

This chapter focuses on the effects of the political factors identified during a comprehensive interviews carried out on selected samples. Other things discussed in this chapter include: the overall political situation in Saudi Arabia, the possibility of Saudi Arabia embarking on a nuclear program or owning a nuclear weapon, the impact of the Arab Spring on foreign investment, the ways in which terrorism affected Saudi Arabia in terms of foreign investment, the Kingdom's relations with Iran and how Iran's nuclear program affects FDI.

6.1 General Political Condition in Saudi Arabia

This section deals on how political factors affect the economy of Saudi Arabia and Foreign Direct Investment (FDI). Participants provided a wide range of views on the condition of the region through their answer to the question, "*What do you think about the present political situation in the region in terms of going to Saudi Arabia and investing in its market?*"

Political stability is an incentive that encourages foreign investors to do business in a country. On the other hand, conflicts and unstable political system discourage not only foreign investors but also the local businessmen who would rather invest abroad to protect their investments. Therefore, political stability is undoubtedly a major factor influencing investment in Saudi Arabia and the region at large. Consequently, any capital used for any kind of investment or transferred from one place to another has its own risks associated.

“The whole of the Middle East, not excluding Saudi Arabia, is always in a state of conflict and unrest, either caused by a revolution, war, fabricated internal strife instigated from within or outside the region, and political tensions. No investor would want to risk his capital or profit in such a region, hence, constant political strife affects investments negatively” (P37).

A crucial point to consider is the fact that Arab countries are not run by institutions, rather, they are run by individuals. In the United States, presidents are elected every four years, and they may emerge from any of the political parties in the country – for example, the incumbent president of the United States is from the Democratic Party but his predecessor was from the Republican Party. Nevertheless, irrespective of the different parties, there are certain perceptions of the United States that remain constant. Despite the fact that Israel has lots of risks surrounding it, the number of institutions in Israel is far greater than all the Arab nations combined. Nonetheless, investors still have some level of confidence in the nation even when there is the possibility of a change in ruling party.

“For example, the way the US views Israel, Russia, Palestine, European, Arab Nations, and other countries in the world remains the same irrespective of who is in power. Now, the striking question is, “Why is it that certain views remain constant even when a different individual is in power?” The reason is that there are institutions and policies guiding the nation, and these institutions do not change their vision and goal in regards to the person in power. The position of the US is that Israel is its only dependable ally in the Middle East; this policy does not change except in the way it is expressed” (P44).

‘“Some people do ask, “What impact does individuals’ regime have on foreign investments?” The truth is that investors are very cautious about such kind of regimes

because today, a president may implement a policy that is favorable for investment, but there is no guarantee that his successor would adopt the same policy. With such uncertainties, Western nations do not trust that Arab governments can protect their investments. It could be that this idea is falsely conceived by the Arab nations' investment competitors."' (P44).

"The reason for such confidence is that hardly would any Israeli president impose a higher tax than did his predecessor, or take a very different approach from the previous command-in-chief. This definitely has an impact on capital, being that the US is not the only country in the region. That is why there exists something called "attractive policies" – "attractive" in the sense that it is designed to entice companies by offering investors what other nations do not offer them" (P41).

Some developing countries are always afraid of multinationals corporations because of the feeling that these corporations would colonize them economically through their significant power.

"Developing countries believe that these multi corporations firms would compel them to make certain policies that will not favour the host country. On the other hand, this is very beneficial to the companies. However, some countries do not see this as an issue, they just want investors to come in, invest, and boost the welfare of their nation" (P44).

There are participants who believe that Saudi Arabia is very stable for investment. The Gulf war was a very great threat to Saudi Arabia because the Kingdom was very much involved in the war; yet, the Kingdom was safe and stable for investment. On the other hand, the conflict in other Arab countries bordering Saudi Arabia is a concern to investors, and this makes them very cautious before entering the Saudi market.

Undoubtedly, Saudi Arabia can be counted as one of the strongest and most stable nation in the Middle East; and they have been performing wonderfully over the past few years. However, the situation in Egypt and the region at large has portrayed a bad image of the region in the eyes of the developed countries and the world in general. Many nations started questioning the future of Saudi Arabia, wondering what the whole scenario would be.

> *"The Gulf region is not likely to be negatively affected by the Arab Spring or have serious problems that repel investors. This build's the confidence of investors. But one should not be ignorant of the fact that investors have another view, which is, they see the Middle East as one entity, and suppose that whatever happens in one country affects the whole region" (P29).*

> *"There is a neutral political opinion suggesting that new investors could be divided into two groups – one group consist of people who understand the nature of Saudi Arabia and has no issues with the present situation. The other group consist of those who do not have full knowledge of the situation, therefore, happens to be too concerned about the situation" (P32).*

> *"The market should be seen as having curves. For instance, there are problems today at the border, which has affected the food industry, resulting in the rise in the price of commodities because some of the borders connect to Syria, Iraq, and Turkey, asserting pressure on Saudi market. Some of the countries chose to raise their taxes in order to have a share in Saudi market; this made some investors to stop operations." (P23).*

Some of the participants believe that the future of Arab nations is not certain. They find it difficult to ascertain what the outcome of the unrest in the region would be in the next five to ten years. However, other participants believe that with the capabilities of Saudi Arabia, its security and the international protection, investors do not have to worry about events in countries bordering the Kingdom. Business owners are aware that Saudi Arabia's government protects investors locally and internationally. One of the biggest challenges is how to deal with local laws upon entering the Saudi Arabian market.

> *"Today, foreign investors are very wise and have a good knowledge of the situation in Arab nations, especially in the Gulf, Egypt and Syria. In making investment decisions, many factors are considered, two of which include (1) the risk factor – a situation in which additional amount is added to the actual price of things. What this implies is that a contract of 2.2 billion will now be 2.8 billion because of the added risk. (2) The possibility of transferring funds abroad without difficulties – this is one of the top considerations of every investor; ability to transfer funds enable them to easily move their funds to their home country or any other country in the event of conflict. Political situation has a great impact on investment." (P24).*

Therefore, the present situation has no effect on Saudi Arabia. On the other hand, the Kingdom's political and economic strength have improved investment. Conclusively, investors are still searching for opportunities in the Arab region because the current political upheaval in the region may change.

> *"In the Arab region, there is a scarcity of investment opportunities. There are no investments in Iraq, North Africa, Egypt, Lebanon, and Syria. Where then can foreign investors invest their money? Which country in the region is safe for investments? UAE is rapidly growing and has now reached an advanced stage, but its fate in the region cannot be ascertained. Presently in UAE, properties are very costly and you cannot predict whether the price will reduce or increase. Saudi Arabia is home to two Islamic holy cities – Medina and Mecca, and Muslims around the globe adore these*

two cities – that is why the Kingdom is an attractive place to invest your money. Revenue depends on the kind of investment made. On a general note, there has not been significant revenue from foreign investments as there used to be" (P33).

"An adage has it that the misfortunes of one nation [are] a benefit to another. This presently seems to be true in Saudi market because the instability caused by the Arab Spring in neighbouring countries made Saudi Arabia to emerge as the only state that is stable in the region. The Kingdom is seen as the largest country with political stability and lots of consumers." (P17).

It cannot be established that the political situation affects investors – this is a barrier, but not an obstacle. There is no doubt that Saudi Arabia is very attractive for investment, but the government has to make certain modifications to existing laws in order to encourage new foreign investments.

6.2 The Effect of Terrorism on Foreign Investment

The effect of terrorism on foreign investment has been thoroughly studied through the following question: *"What are the ways in which terrorism affect the economy of a country?"* The participants agreed that the main goal of every investor is profit. So, if an investor discovers that the investment will be endangered, or that it will not be profitable, then he will not invest.

"Terrorism causes instability in the economy by obstructing trading activities – in the process, profits may be lost as stores are forced to shut down. This is a loss for both buyers and sellers because there cannot be any economic activity without buying and selling. This buying and selling (trading) process are what generates income – without trading, there will be no income, and without income, there will be no

production. Therefore, stability in general, especially a political stability, is very crucial for investment" (P44).

Participants are of the opinion that terrorism is closely linked to economic decline. Any country where there is terrorism, experiences decline in economic growth. A stable environment attracts investment, while an environment that frequently experiences terrorism scares investors and prevents investment. Today, no nation can boast of not being affected by terrorism.

"Investors would rather invest in an environment that is safe and secure but generates only 10% profit; than to invest in an environment with very high risk generating 50% profit. A terror-ridden environment always has a delicate economy" (P42).

"At the beginning the reign of the Muslim Brotherhood in Egypt, there were foreign and Arab investments in Egypt. But after the fall of the regime in 2013, and with the Brotherhood labelled a terrorist organization, investors became afraid and withdrew all their money from the Egyptian banks. This had a negative impact on the Egyptian economy." (P43).

"Research has shown that since the war began in Syria, every year, the economy of Syria is falling 8 years backward. This means that the economy has fallen 24 years behind in only three years of civil war." (P43).

"Some Asian countries like Pakistan and Afghanistan do not enjoy security and stability, and the crime rate in both countries is very high. Their citizens hardly spend money (although they could if they want to) because they do not want to draw the attention of criminal who would threaten their lives and rob them of their money. This

has a negative effect on businesses, as no business would survive if their products or services are not being patronized." (P52).

"A country whose consumers are native inhabitants is safer for investment than a country whose consumers are mostly foreigners; this is so because, in the event of any instability, the foreigners are likely to flee the country. For example, 90% of United Arab Emirates' population are foreigners; and about the same 90% are foreigners in Qatar. Whereas, Saudi Arabia has a population of about 30 million people; out of which 20 to 22 million are native inhabitants, and this represent about 70% of the population, hence, many investors see the Kingdom as a consuming market, favourable for investment." (P21).

Participants have concluded that there are two kinds of terrorism and they have varying effects on a country's economy. The first one is the verbal terrorism – a situation where there is a kind of intellectual or media-centred attacks by extremist organisations. In this situation, investments will not be affected because nothing is changing on the ground. Investors are more concerned about actions than they are about words.

"In our today's information age, the situation has become worse. In the past, the media had limited influence, but today, information about any country is easily spread through the social media" (P23).

"There was a time in Lebanon when political conflict reached its zenith, but the economy continued to flourish despite the media battles because the situation on the ground remained the same" (P31).

Verbal terrorism is viewed as a culture by some of the participants. In general, the world views terrorism as oppressive and puts a priority on favourable political conditions over economic growth.

> *"Though there are lots of investment opportunities in Lebanon, investors still believe that the economic situation is not favourable, hence, the will to invest in the country no longer exists. Nevertheless, if the government take the right steps, they can entice investors into the country and convince them to ignore the idea that terrorism will affect their investments negatively" (P33).*

The second kind of terrorism is the violent terrorism – a situation that involves bombing, kidnapping, or destruction of properties. This kind of terrorism compels investors to close down their businesses or suspend their investment plans (Gold, 2004). Therefore, it is important to differentiate the two kinds of terrorism and how they affect investment.

> *"Stability is surely a factor for FDI because investors prefer to do their businesses without obstructions or incurring damages. They also evaluate and consider the possibility of bringing experts from abroad. For instance, if an expert is required to come from a Western country, the expert will be discouraged by the instability, and this will force the investors to change their plans of investing in the country" (P51).*

There are some other participants who opined that terrorist activities do not have an effect on investment. In other words, investors consider something greater than terrorist activities. This means that terrorism or political stability do not affect the flow of foreign direct investment (Abu Fatim, 2003).

> *"There is a direct link between terrorism and insecurity. Saudi Arabia suffered terrorism for some time, but it is now a thing of the past. Stability, freedom, liberty,*

security and safety can boost the economy and attract investment. Freedom of opinion, practice and thought can be guaranteed in a system that respects such things." (P22).

6.2.1 The Effect of Terrorism on Foreign Investment in Saudi Arabia

Responding to the question, *"Could you address the effect of terrorism on the inflow of foreign investment in Saudi Arabia?"* many of the participants believe that, though, terrorism has some effect on Saudi Arabia's economy; these effects are not very visible. Saudi Arabia has occasionally suffered acts of terrorism, but the state took drastic measures to overcome it.

"Despite the slight effects caused by such acts of terrorism, no foreign company left Saudi Arabia" (P8)

"This further proved that terrorism did not have a tangible effect on the Kingdom, and there are no data to prove that it affected investment activities" (P11).

"The media focuses much on terrorism, but it is believed that foreigners were not the major targeted of terrorist activities; instead, such activities are a way of sending a message to the government – there exists a disagreement between these extremist groups and the government" (P1).

"Investments were not affected significantly because the foreigners and their areas of operation were protected by the government to secure them and improve their level of safety. The government also spent billions of dollars to combat terrorism." (P10).

Participants indicated that for the past 10 years, acts of terror have reduced drastically, while security in terms of protecting firms, foreign direct investments, their areas of operation, and accommodation has increased.

> *"In 2004 and 2005, Saudi market rose to a very high level, indicating that there was an improvement in the confidence of investors on the market. It is true that there were terrorist-related operations in the Kingdom, but these operations were limited to specific targets and had already ceased. As a result of this economic growth, certain sectors in the Saudi market experience massive improvement. The bank and cement sectors experienced enormous growth in 2004. The growth of certain sectors is naturally connected to the Kingdom's economy; a good example of this is the petrochemical sector, which also depends on global demand and supply. There are other sectors that have to do with the local economy; these include the aforementioned cement and banking sectors. This shows the nature of the internal economy, and how investors view it." (P37).*

Analyses indicate that during that period, Saudi Arabia was not officially open to foreign investments. However, other existing companies with foreign investments remained operational without obstruction; such companies with foreign investors include Agricole with French investors, HSBC with the British Bank, City Bank with Samba, and oil companies. This sustains the augment that terrorism-related activities did not affect the country's economy in any significant way.

> *"2005 statistics shows that investment was mostly not affected, in fact, there was a massive increase of investment. There was a significant improvement on direct investments in 2006, 2007, and 2008. The effects of terrorism are usually calculated in the years following the attack, as opposed to the year in which the attack occurred.*

Therefore, in view of the fact that terrorist attacks in 2004 and 2005 did not in any visible way affect investment in the following years of 2006, 2007 and 2008; it is safe to say that the Kingdom was to a great extent, not affected by terrorist operations" (P41).

"The number of Western nationals in Saudi Arabia is not much, and they are well protected by the Kingdom. These foreigners work within protected areas. Even before the period of terrorism, factories and petrochemical firms had special protections and are still being protected afterward. These companies and firms were not affected at all by acts terrorism." (P12).

Some of the participants that were interviewed believe that terrorism does not affect FDI since foreign companies keeping earning millions of dollars in the country they are investing their money.

"In 2004, foreign companies gave their employees three to five months holiday due to the wave of terrorism; but as the situation in Saudi Arabia improved and stability returned, the workers went back to work. Today, the demand for protected compounds has increased, just as the awareness of the importance of protecting investors has also increased. Therefore, a foreign worker who should earn $10,000 is now being paid $40,000" (P21).

"Note that no company was closed in the Kingdom as a result of terrorism, but many of them lost their skilled and highly professional staff from Western countries because of the terror events. Foreign governments had to withdraw their citizens from the country and this had some impact on the country's economy. This was actually temporary, and the situation has since been normalized, with the economy striving again" (P51).

> *"During that period of terrorism, the scare campaigns in the media made UAE, Bahrain, and Europe to be seen as better and safer places to invest compared to Saudi Arabia. That notwithstanding, due to lack of clarity, many of the investors decided to wait for awhile, or directed their money to other places." (P7).*

However, after these incidents investments continued, though some of the investors still felt insecure, making them stay away for a short time; returning when they felt there was enough stability. This, without a doubt, had little effect on the nation's economy (Yamani, 2010).

6.3 Relations with the Iran Republic

Participants strongly believe that, globally, there is a consensus that the Gulf region should remain secure and safe. This is clearly indicated in their response to the question; *"How has the tension between Iran and other Gulf countries affected the government's ability to attract FDI?"* The political war has not yet affected the security of Gulf Countries, but this is not a guarantee that it will never happen.

> *"Unquestionably, the tension between Iran and Saudi Arabia is very apparent. For the past two decades and three years, international companies have invested billions of dollars into the Saudi economy without minding the conflicts or considering that the conflict has more to do with religion and politics than it has to do with investment. In Saudi Arabia, there are streams of investments from very reputable international companies that will never invest in a country where they feel there are political risks" (P1).*

> *"To further buttress the point that the conflict with Iran has no effect on investments in the Gulf Region, it is noteworthy to consider the volume of foreign investments in UAE and Bahrain" (P17).*

"More surprising is the fact that there is generally no economic tension between Iran and the Gulf State, the tension obviously exists only politically. When we consider Iran and UAE, we found out that despite the occupation of UAE's islands by Iran, their economic relationship was never affected" (P35).

Consequently, this tension with Iran may build or create opportunities for foreign investment in other part of the Kingdom. For instance, the conflict between Iran and the Gulf States has created opportunities in the Red Sea region where new industrial cities are being constructed as an alternative to Gulf ports.

"Nevertheless, foreign investment rules exist in areas such as Tabuk (which is located in the northern part of the Kingdom), and Jazan (which is located in the southern part of the Kingdom). In the year 2015, Jazan, which is located close to the border with Yemen, became a dangerous area for investment because of the war in Yemen – this was irrespective of the fact that the city is still far from Yemen. There is no likelihood of Iran attacking the Gulf Nations" (P7).

"Talking about the uneasy relationship between the Gulf States and Iran, there is the tendency that the conflict will not in any way affect foreign investments in Saudi Arabia because most of the investments are located in the industrial cities of the western part of Saudi Kingdom." (P14).

In addition, few of the participants are of the opinion that the relocation of business to lowering these conflicts has yielded positive results in terms of shipping security; they believe it reduce the cost to companies in some sectors such as insurance.

"These are the effects that could be noticed in the Kingdom as a result of the conflicts. This enabled companies to avoid risks of high shipping costs associated

with Gulf ports. These new Red Sea ports provide opportunities and reduce the cost of insurance in the conflict zone" (P6).

The majority of participants did not give much attention to the Iranian issue since there are numerous conflicts globally, such as the ones that exist between India and Pakistan, and India and Sri Lanka. The conflict between India and Pakistan is likely greater than the conflict between Iran and the Gulf States, and we think India is more advanced than Pakistan *(P6, P11, P13 and P23).*

Participant (31) was of the view that Iran is a big industrialized nation, similar to Israel, experienced in virtually all fields of industry. Saudi Arabia would have to depend on domestic products if their disagreement with Iran becomes tense; as it is obvious they would stop receiving goods from Iran.

"If a peace accord with Israel is achieved, Arab economy will collapse because Israel is a highly developed nation with high-quality standards and competitive prices. With Israeli products in the Arab market, the competition scale will be in favour of Israel (just like Iran), therefore causing Arab industry and economy to collapse" (P31).

There is a consensus that no nation in the world wants to go to war at this moment. Every conflict can be seen as a risk for FDI, therefore, the investor would have to evaluate the average risk ratio, profit rate, investment type, and capital.

"For instance, if 35% is the profit, and 5% is calculated as the risk ratio and deducted, the final profit would be 30%. The risk ratio must be put into consideration whenever an investor wants to start up any kind of investment" (13).

"Majority of the foreign investors desiring to come into the Saudi Market always consult Western intelligence agencies to gain knowledge and vital information about

the market. They do this because they have to be sure they can safely do business in the Gulf Region without incurring any damage as a result of the Iranian issue." (P1).

Normally, the uneasy atmosphere in the region has a negative impact on investments, especially if the region is destabilized. But contrary to this, foreign investors do not see the Saudi/Iranian issues or terrorism as a priority among things to consider before making an investment in Saudi Arabia or the Gulf States.

"What investors consider the most is the political system, cost of permits, how easily can things go, the potentials, and other essential things. Some other concerns include social life after work, accommodation, whether women are allowed to drive, and so forth" (P47).

However, there is always this sense of danger whenever Iran is mentioned. The Middle East is certainly in a problem because Saudi Arabia and Iran are closely located. Saudi Arabia is very concerned with whatever happens in Iran as it would have economic and political effects on the Kingdom *(P52)*.

"Iranian support for the Shia populations in the Eastern oil-rich province (with the aim of destabilizing the Kingdom) puts a lot of pressure on Saudi Arabia's government, and this would have an effect on the inflow of FDI in the long run" (P2).

However, in most cases, many of the foreign companies in the region do not plan for the next five years nor do they have a disaster recovery plan.

"What they do is to plan their business in the short-term, and operating lease is the common system they practice – this enables them to quickly leave the country with their capital and profit whenever there is conflict in the region" (5).

6.3.1 The Impact of Iran’s Nuclear Program on FDI

In response to the question, *“How does Iran’s nuclear program affect FDI?”* many of the participants said they consider the nuclear issue to be a political game because there are nuclear programs in India, Israel, Pakistan, and other nations that are close to conflict zones. Politicians believe that the nuclear program is just a rumor or claims *(P1, P3, P6, P11, P33, P34, P41and P53).*

Many of the participants believe that the effect of the nuclear program is very limited or just a propaganda; just like the way the United States alleged that Iraq had weapons of mass destruction but in the end, nothing was found.

> *“United State may also be applying the same policy to Iran. Their aim of threatening Iran is so that they could put pressure on the Gulf Cooperation Council (GCC), making one of their serious topics to be nuclear weapons or program” (P1).*

> *“It should be noted that North Korea’s nuclear weapons do not affect South Korea, neither do South Korea worry about what happens in North Korea irrespective of the fact that they see North Korea as an enemy State. In fact, South Korea's economy is growing rapidly. Saudi Arabia's economy was not also affected when United State's alleged that Iraq had weapons of mass destruction. This is evident that nuclear weapons are likely used as a political game, but do not affect economy and investment between countries that have particular business agreements.” (P6).*

> *“I am going to classify the risks associated with the nuclear development as somewhat inconsequential, maybe 2 or 3 out of 10. The nuclear issue has some political factors; some nation supports it while others do not. Since the issue of a nuclear weapon is seen as a declaration of war, which is even unlikely to happen, it*

should be considered as something that does not have any effect on the flow of FDI." (P35).

However, there are feelings that Saudi Arabia's reputation could be affected if a nuclear program is declared in Iran, which is close to its borders – the reason is that such program may affect Saudi Arabia at any time. Nevertheless, that does not cause any serious concern when one considers how secured Saudi Arabia is.

> *"Tehran's nuclear program does not pose a threat to the Gulf States and Saudi Arabia alone, it is a global threat. Assuming the nuclear program affects the Gulf Nations, it will also affect the world market. Bear in mind that this issue is not necessarily an obstacle, as thousands of investors do not worry themselves over such things. Though it affects stability indirectly, but foreign direct investments kept increasing" (P13).*

6.4 The Prospect and Effectiveness of Saudi Arabia's Nuclear Program/Weapon

The semi-structured interview also considered an important question, *"If Saudi Arabia happens to develop a nuclear weapon or program, what effect would it have on FDI?"* A majority of the participants believe that such programs would be a balancing factor with good deterrence. The feeling that it could be used to defend the Kingdom whenever there is an attack produces a sense of security.

> *"It will boost the confidence of foreign institutions and investors in the Kingdom, having the feeling that they are at least safer than they were" (P12).*

“With such sense of safety, investments would probably increase because the country will be viewed as a nation that has the capability to defend itself again any external aggression.” (P19).

"25 years ago Saudi Arabia had some F-15 aircraft and strategic storage projects, making it the only country in the Middle East to have such.” (P23).

Most of the participants said they anticipate Saudi Arabia moving towards nuclear energy program in the next decade to reduce the dependency on oil sector.

“Presently, Saudi Arabia produces around 11 million barrels of oil per day, out of which only two million is used in the country for the production of electricity. Considering the population growth, all the oil produced in the country will be used internally if the Kingdom does not explore other sources of energy” (P14).

“I believe that a nuclear program in Saudi Arabia would affect foreign direct investment positively because the Kingdom would not be developing such program single-handedly. European countries and the United States would most likely be involved in the project. A nuclear program will portray Saudi Arabia as a powerful nation, politically and militarily” (P2).

Some of the participants believe that nuclear weapon has economic value and attracts investment, while others believe it repels investors because, in the case of any nuclear failure or leakage, it will have a devastating effect on the country. That, notwithstanding, the presence of a nuclear weapon in a country is a show of strength and no country would dare initiate war against it.

The participants however believe that the idea of Saudi Arabia owning a nuclear weapon is unsustainable for two reasons:

(1) There is the possibility that the powerful Western nations, particularly the United States may not allow them to possess such weapons *(P26, P31 and P44).*

(2) Saudi Arabia can only have the ability to do that with cooperation of the United States *(P2)*.

> *"If Saudi Arabia embarks on a nuclear program, what would the consequences be like? The United States of America will not allow them to own a nuclear weapon; Iran is a good example. The economy of Iran was destroyed; and if Saudi Arabia ventures that, their economy may also be destroyed." (P26).*

> *"Economists and scientists have concluded that the human mind seeks for peace even in places where there is war. Therefore, it is a general principal that nuclear program is not a catalyst. Moreover, the presence of a nuclear program in a country does not mean it has the capacity to produce nuclear weapons – Iran is a case study; they have a nuclear program but are not able to produce nuclear weapons. Both foreign and local investors consider peace before making any deals" (P13).*

> *"Apparently, any country possessing nuclear weapons may have sanctions imposed on them. There is no negative effect associated with the use of a nuclear weapon, but any aggressive move would affect the economy and reduce currency value. If nuclear weapons are developed in disobedience to the world's approval, investors would cease to invest in such country, and this will compel the country to either stop their nuclear activities or stay isolated in terms of global interactions and investments" (P25).*

> *"There is a global isolation and economic sanctions serve as a deterrent to any country that desires nuclear power. Any political decision to own a nuclear weapon*

would make the country lose their important business partners, just like in the case of Pakistan and India. This could also happen to Saudi Arabia if they happen to pursue a nuclear weapon system" (P52).

6.5 The Effect of Arab Spring on Foreign Direct Investment

In response to the question, *"How does the Arab Spring (which affected Tunisia, Syria, Libya, Yemen, Egypt, and Bahrain), affect foreign direct investment in Saudi Arabia?"*

Participants said there is no connection between the Saudi market and the Arab Spring. However, they noted that the Arab Revolution had some positive effects on Saudi Arabia as companies in Tunisia, Syria, Libya, Yemen, Egypt, and Bahrain shut down their businesses for security reasons with some moving to the stable Saudi Arabia to invest. Also noteworthy is the fact that these five countries already had economic depression because of the commercial corruptions found in them.

"The Arab Spring seriously affected Egypt and Syria, resulting in instability in both nations. This compelled investors to move their businesses to more stable countries like Kuwait, Saudi Arabia, and the United Arab Emirates. The Arab Spring actually had some negative impact on some countries, but it also had some positive impact on others." (P8).

"Saudi Arabia is seen as a country that is strong and attractive for investment, as shown in its stock market index, which is the best indicator for a stable market in any country irrespective of the political condition of that country" (P47).

"The Arab Spring also forced skillful citizens of the Arab Spring country to flee abroad and work on salaries 50% less than what they were receiving in their home countries. What this means is that if $2,000 is what each of them earned as salary in their home countries, they were ready to accept $1,000 each in another country because they are avoiding caused by the spring in their countries. This situation improved the Saudi market and investment opportunities, as investors could now hire two professional at the normal price of one" (P33).

"Saudi Arabia has the advantage of receiving lots of investments, but it needs to first and foremost manage its internal regulations. I am of the opinion that in the next 4-5 years the Kingdom will be the choice country for FDI in the world. Regrettably, the government has not given the required attention to FDI." (P17).

The Arab Spring served as a very big test for Saudi Arabia, but the Kingdom was able to stand the pressure with consistency and stability. The Saudi government decisively took care of the disturbances that would have occurred in the Kingdom.

"The king's government took very harsh decisions in regards to the participation of women in elections, housing, and hiring of Saudi citizens; and there was orderliness in the country. Saudi Arabia's ability to properly handle the situation gave investors the confidence to invest in the country and there was a sharp increase of FDI" (P41).

On the other hand, there are some participants who are of the opinion that the negative effect of the Arab Spring cuts across all the Arab nations because they are all strongly connected and related.

"For instance, if Egypt is destabilized, it will spread to neighboring nations, especially those that have a strong relationship with her. This is actually the reason

why Saudi Arabia is very concern with the stability in Egypt and makes sure that such stability is maintained, irrespective of the method employed" (P44).

"Conflict and instability affect Foreign Direct Investment (FDI) negatively, especially in this digital age when information (as in the case of the Arab Spring) is easily communicated through social media and other methods of communication" (P14).

The participants opined that there is no place that is totally stable in the region. Instability in one Arab nation can affect all other Arab countries; this may cause Saudi Arabia to either gain or lose investors.

"It is, however, difficult to predict the economic and political future of Saudi Arabia because the Arab Spring may also be experienced in the Kingdom" (P26).

"There was a negative impact. Before any investor enters any market, they should make sure that the possible risks involved are properly evaluated. You can consider political risk as a key factor for FDI. When there is instability in surrounding nations, the internal market will also be impacted, that is why investors should not be in a hurry to invest, but should first study the direction of the market and its stability." (P26).

There are some participants who are of the opinion that the Arab Spring negatively affected the region's economy and investment more than the Iranian nuclear program.

"A lot of activities and projects were abandoned till further notice because of the Arab Spring. Saudi Arabia is in the middle of the region, which is why any instability in the surrounding nations affects Saudi Arabia and its economy" (P11).

On the other hand, other participants believe that the Arab Spring did not in any way affect Saudi Arabia negatively. It only made investors make thorough investigations before investing in the region and this benefited Saudi Arabia. When the Arab Spring failed, the citizen accepted it as a transition.

> *"Instability in the region can prevent even the smallest investment from coming in because investors would be afraid of the uncertainties. Nevertheless, strategic investments, such as on chemicals and oil, are not deterred because they are protected by the government. The government tries its best to making sure Western investments are properly protected. All these have to be considered when planning for investment" (P1).*

6.7 Summary

The debate in this chapter has enabled the researcher to acknowledge different opinions in relation to the current political events in the region. The issue of whether or not the events occurred around Saudi Arabia's borders or inside the country is not relevant to the overall research.

The political condition in Saudi Arabia has been generally discussed. A majority of the participants believe that the present condition in the Middle East is complicated and has the tendency of metamorphosing into a worse situation. However, the situation has not affected the internal stability of Saudi Arabia in regards to international relations and the power of the political regime. In addition to this, the country's economic stability and position in the region attracts foreign investors irrespective of the political upheaval in the neighboring countries.

The impact of terrorism was also discussed and most of the participants opined that terrorism does not have any significant impact. Whereas others suggested that the only negative effect is the departure of skilled human resources.

Debate on Iran was the main focus of this study, and participants agreed that the Iranian issue does not seriously affect the inflow of FDI, but the effect of the Iran's nuclear program could not be clearly defined.

A majority of the participants said that the effect of a possible Saudi Arabia nuclear program would depend on the aim of the program. If the program is for civilian use, then it will add value to the economy and boost FDI, but if it is for military purposes, it would have a negative impact on the FDI and the economy at large. Although some of the participants also argued that a nuclear program for a military purpose would support and protect FDI.

In conclusion, the discussions or arguments about the effect of the Arab Spring led to the consensus that it had a negative impact on Saudi Arabia's economy and FDI was limited at the beginning of the upheaval when the future of the region was still vague. However, since the disturbance stopped and the region became stable, the FDI curve has been growing significantly.

The subsequent chapter will focus on the effect of economic factors. It will involve qualitative analysis and the result of the analysis obtained from the discussions in an in-depth interview.

CHAPTER SEVEN: THE ANALYSIS OF ECONOMIC FACTORS

7.0 Introduction

In this chapter, all economic results and outcomes obtained from the semi-structured interviews shall be discussed. The interviews were aimed at investigating impact of economic factors such as exchange rate and economic variables on FDI. The chapter also looks at the relationship between FDI% per GDP, GDP per capita, Total reserves and average oil prices.

7.1 Increasing Oil Prices

When asked the question *"How will the increase price of oil (between 2005 and 2014) affect FDI flow into Saudi Market?"* few of the participants were of the view that the increasing oil prices have had a negative impact on Saudi Arabia.

> *"Lack of enthusiasm among foreign investors largely caused by increasing oil prices has been identified. Foreign companies are expected to raise the income level of the citizens by producing products which are already being imported. This challenge is psychological in nature, affecting foreign and local investors who can only produce items within the country provided there are enough imported goods. The large amount of revenue generated by high oil prices, is supposed to be used as a supporting factor" (P44).*

> *"Foreign investors have the freedom to import items used for production owing to the open nature of the market, thus enabling them sell huge amount of items" (P16).*

On one hand, increasing price of oil is often a challenge for foreign investors, as oil prices influences exchange rate with US dollar, which in the end increases cost of doing business *(P11)*.

> *"Most manufacturing companies depend on raw materials sourced from the oil industry. Should the price of oil increase, the price of raw material will definitely follow suit, equally causing the price of the final product to increase" (P24).*
>
> *"In this sense, high price of oil can be seen as being advantageous for the country, leaving investors being disadvantaged. When price of raw materials increase, the cost of finished product increases leaving the final consumers to pay more" (P35).*
>
> "*The cost of increasing oil prices affects most sectors of the economy, largely owing to increased cost of raw materials and manufacturing input such as labor, space and equipment, even if one factor was solely responsible for the increase in price." (P20).*
>
> *"Even though the country will have a lot to benefit from this, foreign investors will end up losing a lot owing to the fact that the cost of raw material will definitely increase, which will eventually lead to increase in price of finished product" (P16).*

Many participants *(for example; P14, P17, P19, P21, P25, P26, P29, P35 and P40)* were of the view that the price of oil should be kept high, but maintained at a stable price, being the major source of income for the country. High price of oil will stimulate developed countries to look to alternative sources of energy. If kept at a fair price, oil will attract more foreign investors.

A few participants (*for example P43*) were of the view that foreign investors mustn't be allowed to invest in oil businesses, as oil is the main income stream for the government, and so should be kept away from foreign control.

There were some who opined that cutting down oil production will leave the government with no choice but to seek other income streams, thus leading to the development of other sectors other than the oil sector. Lately, the government has intensified its efforts to expand its income stream. But that enthusiasm gets lost when there is an increasing in oil prices.

> *“The country should look out for new investment opportunities”(P35).*

> *“ It is a known fact that it is difficult to maintain oil at a high price, as fall in price is completely inevitable, sometimes falling far lower than the initial price. With this in mind, the government has to diversify its income stream, trying out investment opportunities in equipment rather than depending solely on oil” (P51).*

> *“It is true that the country generates 98% percent of its revenue from oil; there are many ways through which the government can diversify its stream of income, leading to reduced dependence on oil. As it stands now, serious efforts are being made by the government to create other alternative means of income. Plans are being made every day” (P32).*

> *“The country seriously needs to consider what the future holds as the price of oil keeps increasing, as this period of increase will only last for a short while. What this means is that the country should develop alternative plans to keep it afloat when the price of oil finally falls” (P40).*

On the other hand, some of the participants were of the view that the increase in oil price (2005-2014) will be of great benefit.

> *“Expectedly, the increasing price of oil has bolstered the economy of Saudi Arabia, leading to increased money flow within the market, and this has empowered local consumers to spend the more. With consumers having more money to spend, foreign*

companies will be motivated the more to do business in the country. Foreign companies often accord high priority to their safety before profit; there is sufficient safety in Saudi Market" (P32).

"The fuel policy recently being adopted by Saudi Arabia has something good to offer. This is because such policy will attract more foreign investors due to the fact that petroleum products have remained cheap in the country even amidst high price in other Gulf States" (P14).

At first, the price of petroleum was described as "Positive and Proportional", owing to the fact that increase in oil price had great effect on most industries. The operation of primary industries depends largely on the price of oil. There are lots of benefit that comes with doing business in Saudi Arabia, with one of them being low taxes on raw materials. Added to that, fuel is sold at a very low price in Saudi Arabia, thus allowing investors a profit margin of 20 to 30% *(P7, P19, P28, P32, P46 and P52).*

Furthermore, some participant recalled the pumping of wealth which was witnessed between 2005 and mid 2009 as a result of rising oil price.

"Rate of investment rose profitably from 20% to 30%, with increasing return on investment. Inflation which was if full force during this time had very little effect on the fluctuation of oil prices which was felt in several other sectors that were improved such as infrastructure, healthcare, education and housing projects" (P21).

"As oil prices continue to increase, the country's budget has also risen steadily, eventually leading to more spending. This current trend of increasing spending caused by increasing income have created more investment opportunity which will go a long way in expanding infrastructural project. Are there enough contractors to meet

this demand? Do they have the needed experience in handling these projects? How many of them are available? How much are they willing to invest? Will it be necessary to expand investment opportunity for foreign investors" (P29).

Most of the participants were of the view that the government had taken advantage of the increase in oil price in executing some projects that couldn't be executed when the price of oil was low.

"Saudi Arabia has been able to survive during the changing economic times that caused economies like America and Europe to shrink. When these countries were experiencing downward economy, Saudi's economy was booming. This has in a way attracted foreign investors" (P47).

"It is obvious that the increase in the price of oil has been of helpful in executing investment. It is a well-known fact that when the price of oil increases, its effect is always felt on the economy, with the purchasing power of the populace increasing. This means they are capable of spending more on projects. Added to that, foreign investors are attracted the more when purchasing power has increased" (P26).

Most of the participants opined that Saudi Arabia being one of the largest producers of oil (with so many petroleum companies), have made investing in the country very attractive to foreign investors. As oil prices were increasing between 2005-2014, more and more foreign companies were beginning to consider the possibility of setting up their business in Saudi Arabia.

"*Despite consistent changes in the price of oil, businesses in Saudi Arabia are always the one reaping off the benefit. When oil prices increase, companies also raise the* *price of their product, failing to drop them when oil prices eventually drop. So traders in Saudi Arabia are in no way affected by changes in the price of oil" (P42).*

"One of the major attracting factors that have brought in more FDI into the country is the low cost of production inputs unlike most other countries. Price of raw materials has been low due to exportation of oil. As an example, a foreign investor that wants to start up a plastic manufacturing company in Saudi Arabia will have access to cheap raw materials" (P23).

However, if oil price should increase, international freight rates will increase and this will affect the business of foreign companies involved in exportation. In the end, the price of the final product will increase, and it is the final consumer that will have to pay for this *(P52)*.

7.2 Rate of Inflation and the Economy

When asked the question *"What effect do you think high inflation has on inflow of FDI to Saudi's Market?"* all the participants with one consensus agreed that inflation isn't something that affects Saudi Arabia alone but the whole world. However, in Saudi the inflation tends to be lower.

"Investors have on many occasions studies inflation rates before determining if they are to do business in any country. They believed the inflation experienced by Saudi Arabia, is way different from that experienced by other countries of the World. Furthermore, the inflation experienced by Saudi's economy is a fair one"(P13).

Some participants were of the view that no significant effect has been experienced in FDI due to inflation. Inflation is more felt in economies of developing countries, but has very little effect on FDI in economies like Saudi Arabia.

"Inflation has taken a grip of the whole world, but the inflation rate of Saudi Arabia has been low when compared to other countries, and this alone has attracted a lot of foreign investment. Inflation definitely influences an economy, but its effect hasn't been felt strongly in Saudi Arabia unlike some other developing countries. This is possibly due to low interest debt in the country" (P12).

Some of the participants were of the view that the growth of inflation that has been experienced by Saudi Market has been fair when compared to other Gulf State, unlike UAE and Qatar.

"The cost of living in Saudi Arabia is very low; a foreigner who lives and work in Saudi Arabia will definitely find that living expense is low in the country. However, cost of living has been on the high side for young Saudi workers owing to low starting salaries which does not fit the economic realities of today" (P23).

Participants agreed that there is a dampening effect an inflation due to the low exchange rate Saudi Riyal against the US dollar, and this brings about some balance in the market *(P1, P5, P37, P45 and P52).*

"To figure out the cause of inflation, Saudi's Riyal is in a way connected to the US dollar. There was a time the US dollar was weak when compared the Yen, Pounds and Euro. The fall in the strength of dollar has helped reduce the effect of inflation on the economy. It can then be said that the effect of inflation has been low due to exchange rate" (P37).

However, inflation has been strongly felt in sectors like construction, transportation, real estate, tourism and service sectors;

"Putting this issue under control hasn't been easy in spite of the free economy being practiced in Saudi Arabia. Putting prices of commodity under control has been a challenge even though it is a liberal financial system. This brings one question to the mind; "what effect does inflation have on investment? It sure does increase profit, an item bought for 10 riyals and then sold for 25 definitely yields more profit" (P31).

"Increasing price of oil has in a way brought about inflation. So also has the real estate market, as when the price of real estate increase, so will every other thing, and this is the true indication of inflation. A property which was valued for 1 million Saudi Riyals some 10 years ago and now has a value of multi millions which means more profit for an investor" (P33).

"The effect of inflation has been felt strongly in the tourism sector in recent years. If tourist were able to rent a thousand rooms some years ago, it would have fallen to 600. The high prices of the room would have made it difficult for those who want to rent to do so. This has affected investment in more negative ways" (P19)

"Others listed in negatives abundance, because the service companies have contracts for several years, stretching from one to five and ten years, For example: the contract duration was from 2006 until 2011, five years; so there was a loss of the budget submitted from the year 2007 to the year 2011" (P49).

Other participants chose to see inflation from a different point of view in relation to investment. Considering the fact that inflation often leads to devaluation, committing to long term investments that run for 3 to 5 years is difficult on the part of investors. To cover up cost and make reasonable amount of profit, they are left with no choice but to sell at high prices, which often falls later due to competition *(P44)*.

"Goods exported abroad will be sold at high price unlike world market which does not partake in the competition. Foreign investors often have a hard time coming up with decision during times of inflation. However, the impact created by inflation is often temporal especially if the inflation itself is temporal" (P44).

Some of the participant who were weary of the negative effect high inflation can have, were of the opinion that all factors that will lead to a fall in inflation rate should be studied.

"When left unchecked, inflation will make consumers have to buy commodities at high prices, and this can lead to a fall in rate of consumption. In times of inflation, the face value of a currency usually drops; prompting customers to cut the amount of money they spend" (P53).

"Let say someone who before could afford to buy several mobile devices now can only buy one due to inflation, the earnings of the mobile company will definitely drop. Investors dealing in mobile devices will be forced to sell their products to customers at high prices. This will cause a fall in the demand of their product which will in turn cause decline in sales and profit." (P52).

Furthermore, most foreign investors are channeling their attention to import and export business. Inflation leads to a fall in purchasing power among Saudi citizens.

"Following the crash of the stock market in 2006, middle class families have quickly vanished from the radar. Investors dealing in construction business won't be affected so much because they deal directly with the government, as inflation does not have much effect on infrastructures. It is the citizens that will suffer the more from inflation due to reduced purchasing power which is caused by inflation" (P1).

Some other participants believe that inflation affects government, citizens and investors. Investors are individuals who live among citizens of a community, and are affected by whatever affects the rest.

> *"Following the decision arrived at by Saudi government to carter to the needs of less privileged Saudis (like paying stipends to the unemployed and giving additional bonuses to the employed in 2011), inflation now affects both citizens as well as foreign investors. In times of inflation, it is the responsibility of the government to seek the welfare of its people. This decision will certainly affect foreign companies in more negative ways than one because the cost of production will definitely rise, leading to increased cost of consumer goods" (P2).*

> *"Companies having liquidity problems are often the ones affected the most by inflation. Inflation has dire consequences considering the fact that it shoots up the cost of living, which in turn reduces the profits made by companies"(P19).*

In term of facing an inflation wave, the foreign companies have found the following ways of solving the problem of inflation;

> *"Adding an annual inflation rate which will help cover up their cost while still staying within budget. It is counterintuitive to continue working with the price of 2005 when inflation is in place, because the price of things would have increased by 5% now" (P25).*

> *"Inflation which cuts down profits is often the major reason why companies merge. Things can go worse if merger isn't successful and yet the prices of things keep increasing" (P36).*

There are other participants who believe the Inflation can be a good thing at times because it is a clear signal that an economy is growing.

> *"For instance, the government of Japan has put in efforts in raising the rate of inflation, and provided the inflation rate doesn't exceed a certain limit, the economy will develop the more due to low prices which gives people the feeling that prices will still reduce the more. But if there is no inflation, people will tend to pay more for the fear of high prices in the future. So inflation can be of great benefit to an economy" (P41).*

7.2.1 Inflation Rate and FDI

Certain responses was given by participants when asked the question *"According to reports presented by Saudi Arabian Monetary Agency (2007_2011), FDI have experienced rapid growth in spite of the high rate of inflation which has gripped Saudi Economy right from 2007 majorly due to increasing price of oil. What is your take on this?"* The participants made contributions to this statement in diverse ways.

> *"Most of these foreign companies are coming from regions like Europe and the United States where rate of inflation is already high. So inflation is a problem that transcends the borders of Saudi Arabia, only that it a bit fair here" (P13).*

> *"Global markets are always subject to high taxation as well as stiffer competition. Foreign investors still find Saudi Arabia and other Gulf State as attractive destination for investing. Despite the existence of inflation in Saudis Market, investors are still able to reap off great returns on their investment" (P14).*

> *"They have a lot more to gain by doing business in the country instead of places like America and Europe. The marketing in the country hasn't reached its full potential*

yet; but the country offers more security as well as stability in government and all this coupled with high deposit of natural resources have made the country more attractive. For every $100 million invested today, an ROI of 25% is guaranteed, whereas in other market, that amount of money can only yield 5 to 6%, and this is one clear advantage the country has" (P13).

The participants with one accord agreed that economic theories are postulated solely on economic grounds which assume everything will stay at optimal level regardless of other factors.

"Failing to take into consideration that other factors that have a hand in inflation have spurred growth in investment. They were able to draw attention to the fact that most foreign companies aren't really bothered about the inflation rate. The bottom line is this; the postulated economic theories even though true, aren't applicable at all times" (P29).

"Certain other salient factors such as conflict in petroleum, anxiety rate and interest rate have to be taken into consideration" (P52).

Some of the participants were of the view that there are some investors who don't really care so much about the high inflation rate, provided that there is stability and security in the country.

"There are so many things in Saudi Arabia that attract investors, some of them which include; availability of raw materials, and low cost of production input" (P53).

Some participants affirmed that doing business is cheaper in Saudi Arabia than most other countries.

"In Egypt for instance, the price of things in the country is quite similar to that of Saudi Arabia, but where the actual difference lies is in quality and level of income. Amongst its neighbors, the cost of living is cheapest in Saudi Arabia, and this is what investors find attractive" (P17).

As active investment continued to increase, foreign investment had done as well and this had helped stabilize inflation. It was during this period that the influx of foreign investors to Saudi Arabia increased, however some of these had been in Saudi for a long time, but were working illegally or by hiding behind Saudi national *(P18)*.

"Investing in the country requires plenty of time, owing to the fact that decisions will have to be made concerning equipment and license. The inflation was only felt for a short period of time. While investment will remain stable after a year or more, cursor control has experienced steady growth." (P19).

"Inflation is often seen in Saudi market as being corrective instead of sudden, and this has influenced the Saudi Economy. Inflation which has affected the international market as well as global economy, has resulted in more FDI flowing into Saudi Market" (P29).

Participants agreed that countries with inflation rate of 5% to 10% or more, often fail to attract investors. However, this scenario didn't exist in Saudi market;

"The scenario is different in Saudi Arabia who though has been experiencing inflation, has still being able to attract foreign investors as they believe the country has a buoyant economy. No matter how high the inflation rate may be, the massive size of the Kingdom's market is enough to offset whatever effect inflation may have" (P20).

Some participants opined that inflation has been on the increase in the country due to the business agreement signed in the country. Many companies found their way into the country in 2008 *(P21)*.

It is believed that inflation increases as employment increases, meaning that when unemployment rate falls, there will be an increase in purchasing power, which will then force companies to increase their price *(P21)*.

Some were of the opinion that most of the FDI is channeled towards the energy sector, primarily due to the high rate of investment it offers which is often unaffected by inflation. Furthermore, a good amount of foreign investments are used for government projects due to the increase in demand for infrastructure project *(P2 and P19).*

> *"Between 2008 and 2010, the government made significant effort to encourage more foreign investors to bring their business into the country by making the entire process as simple as possible, even though the price of commodities have increased following the entry of foreign investors. Initially, evaluation of project cost was done in Saudi Riyal, but the moment foreign investors set their foot into the country, evaluations were being done in foreign currencies, in this has increased risk" (P24).*

In addition, The impact of the collapse of US and UAE economies which occurred between 2008 and 2010, affected a host of other countries. But Saudi Arabia remained largely untouched, thanks to high liquidity in the country. Some participant strongly believed that this has been of great benefit to Saudi Arabia because foreign investors were looking for a country with strong economy, where profit is guaranteed.

> "*The world experienced a recession in 2008 and into 2009. Even amidst the recession, most foreign investors still preferred taking their money down to Saudi*

Arabia to do business. Opportunities were bound in every corner of the country, the country is indeed blessed and there is nothing inflation or any other unfriendly economic condition can do about it. Any investor that decides to do business in Saudi Arabia can still reap of plenty of ROI even amidst inflation. With the current turn of economic realities, it has become clear that the real estate sector will receive most of the investment" (P33).

"Also the investors, due to the conditions of the region, did not feel afraid because they did not have another option other than placing all their money in a country that is not stable money, which is what occurred even though it did not work" (P42).

Some participants tried to figure out the countries of foreign companies, who were doing business in Saudi Arabia. They then agreed that some countries were trying to build a stronger relationship with Saudi Arabia during this time. There is a good possibility that the multinational companies did not experience much inflation, because they were in partnership with Saudi Aramco (national oil company) *(P35)*.

Others believed that there is another reason to this. During this period, the income of the country was way larger than the economic income of the country leaving out any possible form of adjustment.

"There are a total of 11 banks, and if the lending capacity of these banks is all put together, it won't be enough to meet 25% of all available projects in the market. Furthermore, eleven banks supplied the finance for the construction of King Abdul-Aziz Airport project. Of the eleven banks, 9 were foreign while the others were Saudi Banks. This has then made it clear that there are lots of big opportunities with very minimal risk despite the realities of the economy. Foreign investors can then exploit

this opportunities knowing fully well that Saudis economy is buoyant enough to wither any storm" (P11).

An explanation was then put forward by the participants regarding the relationship FDI had with inflation due the availability of natural resources.

"This is however not the same for all countries. Countries without any form of natural resources often tend to suffer inflation the most, and this alone can drive away foreign investors even if products are sold at high prices. But Saudi Arabia has an advantage over most other countries due to the abundant natural resources it has" (P46).

Some participants believed that the stock market is a major influencing factor on FDI growth. Between 2005 and 2008, the value proposition of most foreign investment outside Saudi Arabia was high when compared with low price-to-earnings ratio in Saudi Arabia which impedes investment.

"In the case of Saudi Arabia, price-to-earnings ratio has remained low, maintaining a constant value of 9 to 12%, and this is what companies that what to accrue high ROI are looking for. Even when inflation was at its peak in 2007, foreign companies were still able to make an ROI of 20% every year. Foreign companies still preferred to so business in Saudi Arabia because Saudis market was yet to reach its peak levels" (P7).

However, if proper attention isn't given to inflation rate by the government, the result will be lowered demand which leads to reduced consumption, as there won't be enough money to spend. This will lead to banks lowering their requirement for loan due to fall in demand for loan caused by decrease in purchasing power *(P52).*

Even though there is this feeling that inflation actually caused a reversal in this relationship, making investors to stay away from countries with high rate of corruption *(P35)*.

7.3 Unemployment rate and FDI

When asked the question *"In what way has the growing unemployment rate affected inflow of FDI to Saudi Market?"* the following discussion ensued.

Participant (25) has been able to divide workers in Saudi Arabia into three categories.

1. The first categories of workers are those in administrative department and strategic sectors with high availability.
2. Workers in the second category are those that work in mid-level departments where there are only too few workers, with insufficient educational institutes to supply the needed training.
3. Workers with too little education fall into the third category. They are employed in applied section having very little knowledge of work awareness.

Some participants believed that foreign companies entering Saudi market should create more employment opportunities.

> *"Decision makers have on so many occasions encouraged local businesses to hire more local labor. If rules for foreign investment are created and then implemented, then most local young workers will be gainfully employed" (P39).*

> *"The government has been actively involved in the payment of workers' salaries and has gone a step further to encourage companies to provide adequate training for Saudi workers. It is hard to find any other government doing this" (P1).*

A foreign investor that creates employment opportunity in the country is interested in two things; first is the readiness of the people to accept their job, and second is their interest in increment in salaries.

> *"Have you ever wondered what has been attracting foreign companies to China? This is because the country has a high population with very few employment opportunities and this has made the cost of labor cheap, thus attracting foreign investors. As of today, the salary of an average Saudi worker is about 3000 riyals which when converted becomes $800 which is quite fair. However, things have changed as basic salary across the world has fallen below $800 even in China" (P13).*

Some participants were of the view that the government is being too strict on both expats as well as local workers.

> *"It is then the duty of the government to be strict on foreign companies that do not employ local labor. Though it is important there should be a smooth mechanism to attract foreign investors, employing local labor must be enforced on them" (P40).*

Some participants believed that unemployment was completely in non-existence in Saudi Arabia, owing to the massive number of projects springing up in the country.

> *"This fact is non-substantial because it takes into consideration both male and female workers. Males have fair opportunity because most employment opportunity is created for them, but the women are completely left out, making it difficult for a woman to secure a good job. More also, there are certain regions of Saudi Arabia where women are not allowed to work at all. This is more than an organizational problem but a social problem. Every year, thousands of girls graduate from college and only find jobs in health and educational sector" (P45).*

"The unemployment is more of a social problem. Before the discovery of oil, everyone was content with manual labor. But with time, no one really wanted manual labor any more, and this is a way caused unemployment. Graduates couldn't find a place in the country's economy" (P45).

The participants were of the view that the quality of Saudi Arabian workforce has since improved following the introduction of scholarship programs. It has been discovered that increase in the educational level of local workers have empowered them do the same kind of job expats have been doing. This then means foreign companies can then source their workforce locally. Sourcing workers locally helps cut down the cost incurred in bringing in expats.

"Employment rate has improved over the years in Saudi Arabia due to the increasing number of Saudis who go abroad for their education, even though most receive their education in Saudi Arabia. Those who were privileged to study overseas were able to gain useful insights from their host country" (P29).

"The priority of foreign companies has always been on availability of well trained workers as well as education level. When these factors are in place, more foreign investors will be attracted into the country, though the high rate of unemployment can be a problem" (P34).

However, some participants argued that shortage of qualified graduates and the culture issue have contributed to underemployment.

"The problem here is that fresh graduates do not have the prerequisite skills and experience to fit into the market. Their course of study has little bearing on the needs of the market. Even though the opportunities are there, but the skills of available

labor isn't enough and this has posed a serious challenge to FDI in Saudi Arabia" (P40).

"Geographic location is a major determining factor in employment. In places some places, there is a shortage of skill and educated workers, whereas regions like Jeddah and Riyadh has a large amount of skilled labor which are mostly females." (P27).

"I strongly believe that social culture is a big factor here. Some employees are just not willing to be bossed around or take orders; everyone wants to be a boss. Qualified workers, who can work in the industrial sector, are few in number owing to the difficult nature of the industrial sector." (P12).

Furthermore, there are some foreign companies who prefer to have Saudis in their employ for social reasons.

"The social tie among Saudi workers is tight, as very little case of theft has been recorded. It also cost less and requires less time to secure residency permit to recruit a Saudi worker. More also, foreign companies are obliged to meet the social needs of their host community" (P18).

On the other hand, some of the participants believed that Saudization framework will only yield a negative effect considering the fact that the number of qualified workers in Saudi Arabia is low. Furthermore, employment rate in Saudi Arabia has affected the relationship foreign companies have with the government.

"Saudization program has also affected FDI due to its complex protocols and paperwork. Foreign companies coming to Saudi Arabia for the first time are required to source 20% of their labor force from Saudi Arabia to speed up government transaction when obtaining work permit., and this hasn't been favorable on their part.

In actual sense, this move has slowed inflow of investment to Saudi Market, with FDI being affected negatively." (P23).

The participants believed that Saudization has been a major barrier to FDI. They opined that it has done nothing but to increase labor cost owing to the fact that there is no form of regulation guiding investor-employee relationship.

"A typical scenario here is a young Saudi who after extensive training leaves his employer without notice. The company has no choice but to hire a new worker and then start training all over again. This happens because there is no regulation. This isn't so for foreign workers who are subject to very strict employment conditions which requires them to put in sufficient commitment" (P20).

"Saudization regulations appear to be a major barrier here, and as has been observed by participants, foreign companies are left with no choice but to have between 20% and 50% of Saudis in their labor force. Such enforcement has only led to declining FDI" (P20).

"Added to that, foreign companies are mandated to train a certain number of Saudi workers, and this has in a way reduced foreign investment. Although, it's been discovered that the large size of the market has been of benefit to investors in spite of employment issues" (P26).

There were participants who did not agree that FDI has been the solution of unemployment case in Saudi Arabia.

"At first, foreign companies were not obligated to abide by Saudization. Saudization system has created both national and local institution. Saudization has had a big

effect on over 80% foreign companies with valid licenses. There are certain factors which ought not to be taken into consideration by Saudization" (P24).

However, some others opined that Saudization program isn't restricting the access investors have to the market. This program has helped foreign companies to reduce the operation cost.

"Studies have revealed that labor cost in the manufacturing sector isn't part of the 5% value of the final product. In the energy sector, it is 25% while in other sectors like glass, cement, and fiberglass which places high demand on fuel, the figure is 40%. The labor cost in Saudi Arabia stands at 5%, even though foreign companies will like to employ well trained Saudi workers" (P40).

"There is no doubt that unemployment still exist in the country, as companies are only mandated to hire only 6% of Saudi Workers in their entire workforce in constriction sector. To reduce the amount of money they spend renewing residency permit of foreign workers, some companies have increased this figure to as much as 18%" (P1).

"Foreign companies are definitely interested in hiring local labor. It is cost efficient to employ Saudi workers than foreign employees who will demand lots of paid vacation. Foreign companies will end up spending huge sums on flight tickets, hotel reservation and transportation on their foreign workers" (P12).

Some of the participants believe the time has come for the government to place some limitations on foreign companies investing in high technology. This is because such kind of investment will only lead to increased unemployment, whereas the aim of FDI is to boost employment opportunity especially for the females.

“Most of the FDI in Saudi Arabia have their focus on the infrastructural sector which depends heavily on cutting edge automated technology” (P1).

There were participants who raised concerns about the impact unemployment will have on foreign investment if it continues to increase at its current rate. Lots of investment opportunities are likely to be lost.

“For young Saudis who due to unemployment have very little to spend, will cause a fall in purchasing power, and this will cause investors coming to Saudi Arabia to lose a good portion of the market share. Before investing in some sectors of the market, it is important for some form of underground study to be carried out to determine the number of customers and educated labor force that is available. If they are to achieve their desired profit, they will still need to reach out to the unemployed ones. If it happens that most of the people in their geographic location are unemployed, investment here will only yield very little returns due to their low earning. So if new businesses are to increase their profit, they will have to carter to a population with high purchasing power.” (P52).

7.4 GDP Growth and FDI

When asked the question *“How do you see the relationship between GDP growth and FDI growth in Saudi Arabia?”*

The participants believed that the growth in GDP has resulted from growing FDI in Saudi Market. This is because whenever development budget gets high; there will be enough money to spend on different projects.

"The economy of Saudi Arabia is often considered as one of the strongest economy of the world, with surplus local currency as well as a positive balance in exports. The country has an abundance of rich government bonds, which the government has used in investing in healthcare, infrastructure and education. This ordinarily should cause growth in foreign investment. The government has been putting in money into many sectors such as highways. Foreign investors have been brought in to execute these projects." (P52).

"The Ministry of health had at first set aside a budget of $18 billion which was then increased to $20 billion to give room for more project and these projects have affected the lives of the people in a positive way"(P18).

It has been observed that foreign investment influences GDP in more ways than one. large private corporations have their eyes set on the energy sector, and this has helped grow GDP.

"As an example, foreign companies that have put in their money in the oil sector have achieved a capital value of $20 billion particularly in the petrochemical sectors. This has created a positive impact on the country's GDP. If just one company can achieve this feat, then it can be rightly deducted that joint-stock companies will add more to Saudi Arabia economy due to the positive relationship that has been created" (P7).

Many participants were of the view that GDP has a correlative relationship with FDI *(P2, P3, P5, P8, P12, P13, P16, P19, P21, P22, P24, P25, P27, P33, P35, P38, P40, P45 and P52).*

"It is because if high GDP that more investors have been coming into the country. This has helped create a stable economy, which is capable of sustaining growth which in turn leads to increased FDI" (P19).

"GDP rate affects the wealth of Saudis. This then makes GDP a major indicator for FDI. The oil sector is often regarded as the heart of Saudis GDP" (P33).

Added to that, more funds have been set aside to be used by government for the launching of more projects aimed at positively influencing FDI.

"Increased government spending has caused an increase in market value, which is one important factor investors are on the lookout before deciding upon the country to invest in. As GDP continue to experience more growth, so also has FDI and this growth has been as a result of increased purchasing power" (P31).

"Before investing in any country, the first thing an investor will most probably want to do is to study the development trend in the country, especially for a country like Saudi Arabia with surplus budget. Saudi Arabia's budget has never suffered deficit, as there has been a constant increase in the rate of production which has at the same time increased GDP as well as the income of citizens. This has fostered continuity and also helped boost investment" (P53).

7.5 Relationship Between FDI% per GDP, GDP per Capita, Total Reserves and Average Oil Prices.

This analysis is based on 31 years of data starting from 1980 to 2011 (as shown in table 5). It seeks to evaluate the relationship trend between the following variables: FDI% per GDP; GDP per Capita; Total reserves and Average Oil Price.

Years	FDI % per GDP	GDP per Capita US$	Total reserves US$	Avg Oil Prices US$
1980	-1.9	16,764	26,128,869,368	35.52
1981	3.5	17,617	34,051,209,542	34
1982	7.3	13,743	31,649,062,333	32.38
1983	3.8	10,886	29,040,700,546	29.04
1984	4.1	9,511	26,165,376,464	28.2
1985	0.5	7,859	26,506,780,884	27.01
1986	1.1	6,273	20,120,402,794	13.53
1987	-1.4	5,923	24,909,267,580	17.73
1988	-0.4	5,866	22,438,243,829	14.24
1989	-0.7	6,112	18,590,541,066	17.31
1990	1.6	7,236	13,437,138,407	22.26
1991	0.1	7,879	13,298,432,865	18.62
1992	-0.1	7,930	7,466,613,250	18.44
1993	1	7,475	9,223,546,274	16.33
1994	0.3	7,414	9,138,920,935	15.53
1995	-1.3	7,704	10,399,130,293	16.86
1996	-0.7	8,397	16,017,719,884	20.29
1997	1.8	8,674	16,210,180,707	18.86
1998	2.9	7,570	15,542,906,695	12.28
1999	-0.5	8,221	18,330,918,845	17.44
2000	-1	9,401	20,846,857,292	27.6
2001	0	8,849	18,866,525,795	23.12
2002	-0.3	8,785	22,185,722,224	24.36
2003	-0.3	9,607	24,537,673,107	28.1
2004	-0.1	10,784	29,303,898,153	36.05
2005	3.8	13,127	157,386,685,887	50.59

2006	5.1	14,381	228,956,883,077	61
2007	6.3	15,091	309,287,348,786	69.04
2008	8.3	18,203	451,278,978,159	94.1
2009	9.7	14,051	420,983,691,698	60.86
2010	6.5	16,423	459,313,156,024	77.38
2011	2.8	20,540	556,570,991,484	107.46

Table 5 the changing of macroeconomic variables from 1980 to 2011, Sources: Saudi Arabian Monetary Agency

7.5.1 FDI % per GDP with GDP % per Capita

Back in the 80s, foreign direct investment was still an alien concept to Saudi Economy. But by 1981, FDI had increased considerably. The country's GDP grew from 16,764 to 17,617 indicating a 5% growth. This growth can be attributed to the change in political demography which was taking place in the Middle East and Saudi Arabia as part of the region, following the revolution that took place in Iran and Afghan war in 1978 and 1979 respectively. The two events raised concerns about the stability of Saudi Arabia. This was the core reason why foreign investment had dropped in 1980, only for it to pick up in 1981 again. Back then, the oil sector had almost all the foreign investment.

Another major event was experienced between 2004 and 2005. FDI/GDP had grown by 3.9%, with GDP/Cpita growing from 10,784 to 13,127, representing an increase of 21.7%. The increase in the influx of FDI to the country was largely a due to foreign investment regulation that was launched by the government in 2005. As earlier discussed, the government of Saudi Arabia enacted this law as part of its obligation after signing an agreement with world trading organizations, which was signed in 2005. Ever since then, a positive correlation between GDP/Capita and FDI/GDP has been experienced. The trend has been the same all through the years of observation. Surprisingly, the results have been different when we monitored other figures. An inverse relationship exists between these two variables (FDI% per GDP and GDP% per Capita).

Another major deviation was experienced in 2008 and 2009. The GDP/Capita fell from 18,203 in 2008, to 14,051 in 2009 indicating a 22.8% reduction. On the other hand, FDI/GDP grew from 8.3 to 9.7, indicating a 14% increase. This unpredictable behavior explains the fact that the crises the mortgage sector was going through had affected the whole world. The advantage Saudi Arabia had was that the price of oil which has increased during these turbulent times kept attracting foreign investors to the country and this has helped raise FDI and GDP.

More changes occurred in the next two years; 2010 to 2011. GDP/Capita grew from 16,423 to 20,540 indicating a 25% growth. On the other hand, FDI/GDP fell from 6.5 to 2.8, indicating a 3.7% decline. The fall in the figure for foreign investment, took place in Arab spring, and has been discussed in chapter 6. This event had triggered a chain of uncertainty across the entire region and which affected the inflow of foreign investment into Saudi Market.

Though there is some form of positive correlation, there are also lots of deviations as can be seen in figure 6. So as result, there is no correlation between the relationships GDP/Capita has with FDI/Capita

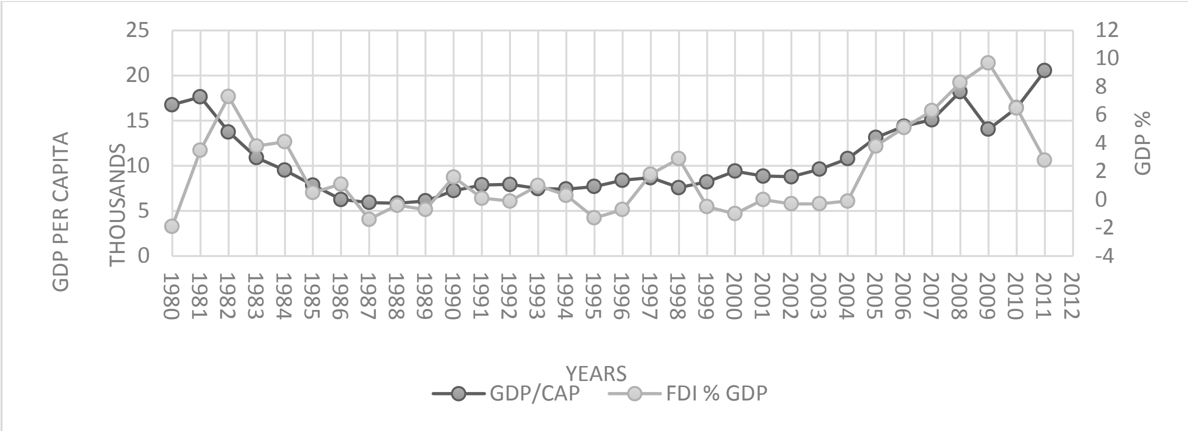

Figure 6 The Annual GDP/Capita and FDI% per GDP from 1980 to 2011

7.5.2 FDI/GDP with total reserve

Countries often store their reserves in different forms such as Gold, Foreign Exchange and a host of others. The goal is to determine the relationship FDI/GDP of Saudi Arabia has had with the reserves over the last 31 years beginning in 1980 (figure 7). The 31-year data has been analyzed to spot out deviations.

Back in 1980, there was no sort of foreign direct investment entering the Saudi Arabian market. The country's total reserve stood at 26.12 billion. By 1981, FDI had increased significantly when compared with what it was in 1980. Foreign reserves increased to 34.05 billion in 1981, indicating that the economy was growing. These two variables have related with each other in a positive way. The reason behind the increase in total reserve had been the involvement of Saudi Arabia in the Arab-Israel war in 1976, which caused the price of oil to rise and reach to $35 per barrel in 1980, and this had a positive effect on the economy leading to the increase in total reserves.

By 1983, foreign investment had grown to 29.04 billion, contributing to 3.8% of Saudi's GDP. By 1984, the country's foreign reserve slipped to 26.15 billion, with the contribution of

FDI to the country's GDP rising to 4.1%. One clear reason behind the increasing FDI inflow, has been the intensive effort the government had been putting into improving private sectors beside health and education sectors using the five-year plan that has been discussed in chapter one, and this plan incorporated FDI. On the other hand, depreciating oil prices have been responsible for the decrease in total reserve. Another reason was the obligation that was placed on Saudi Arabia regarding the Iraq-Iran war. Within this period of time, the two variables were inversely related to each other.

More interesting results spring up when the timeline is studied intently. From 1997 to 1998, FDI/GDP had grown from 1.8% to2.9%, indicating a 0.9% increase, but the total reserve fell from 16.21 billion to 15.54 billion. The fall in total reserve can be attributed to the fall in the price of oil, which was sold below $12 per barrel, leaving the government with no choice but to use total reserve in covering up. By 1999, the following year, FDI recorded a further downward growth of -0.5%, even though total reserve had grown by 2.7 billion due to the increasing price of oil which stood at ($17). It has thus become clear that oil prices influence these two set of variables greatly, but the two variables react in different ways, with total reserve taking more time to react.

However, something unexpected occurred between 2010 and 2011, as FDI/GDP fell from 6.5% to 2.8% due to instability being experienced in the Middle East, which was as a result of Arab Spring event, which saw total reserve grow from 459 Billion to 556 billion within this period, with the price of oil hitting $107. It has then become obvious that there is some ambiguity in the relationship of this variable, even though there isn't any form of positive or negative correlation.

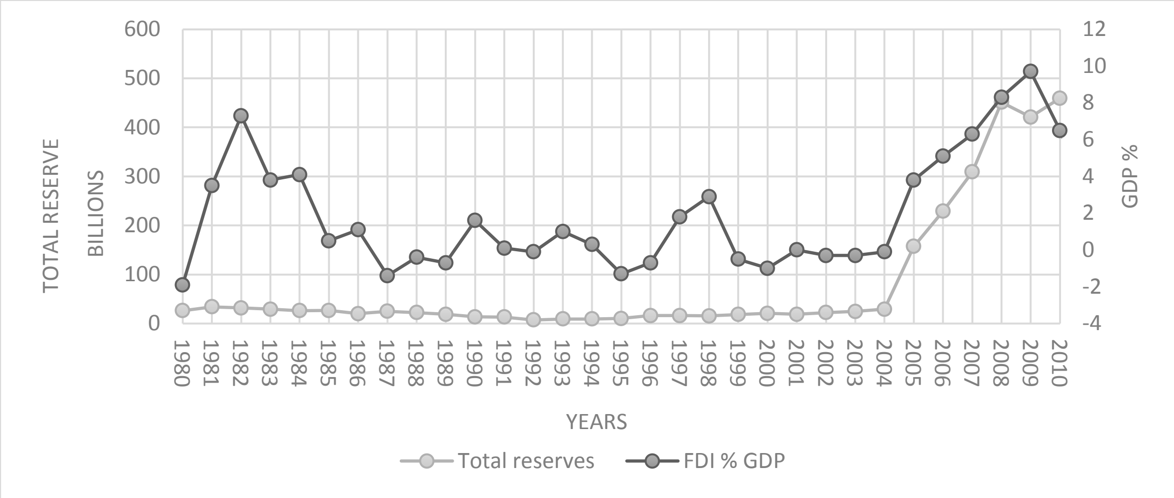

Figure 7 The Growth of Total Reserve of Saudi Economy and FDI% per GDP from 1980 to 2011

7.6 Fixed Exchange rate and FDI

Different opinions surfaced when the question *"What effect does fixed currency of Saudi Riyal have against the US dollar on the inflow of FDI into Saudi Market?"*

Participants were of the opinion that it takes more than one policy to affect exchange rate; with the most prominent policy being the one US dollar has with Saudi Riyal. This policy has created some sort of monetary stability which has helped attract foreign investors.

> *"Foreign investors have been barely affected by exchange rate policy; it is the citizens that are affected the most. This has been more like an economic policy because most of the country's revenue comes from the sale of oil, and oil has always been sold in dollar. It will to the best interest of the country that decides to link to Saudi Riyal alongside the US Dollar, as its yield won't be affected if the riyal gains strength" (P13).*

This means every foreign investor that deals in foreign currency should expect a yield. Added to that, the stability that has been experienced so far in currencies has helped increase the purchase value of currency owing to the fact that it takes years for return on investment to yield. It is therefore important for anticipated profit to exceed the current value of the investment. This should serve as a point of attraction for foreign investors *(P1, P6, P12, P14, P16, P18, P20, P26, P40, P42, P44, P46 and P51)*.

Most of the participants believe that results have been impressive so far, as Riyal has enjoyed some form of stability having been pegged to the US dollar. Foreign investors have benefited immensely from this policy as it allows them invest in solid base with very little risk of exchange rate changing.

> *"Investors now feel more secured particularly when importing raw materials either in dollars or euros; as the price of this commodities sold in dollar won't change, neither is there any possibility of price increasing. On the other hand, commodities sold in Euros often experience irregular fluctuations, as so an investor will prefer to deal in dollars due to stability in exchange rate. The recent growth of the US economy has benefited those who work in the United States or deal in dollars. However, it has been quite a challenge for investors dealing in Euros" (P16).*

The majority of the participants believe this policy has positively affected foreign investment in the country as it has helped eliminate fluctuation in exchange rate which is responsible for the increase in cost.

> *"Saudi market has maintained a position of being between a growing market and a sophisticated market. Developing markets often suffer fluctuation in exchange rate the most, and this has proved itself an obstacle to foreign Investment. Furthermore, the*

fall in the value of currency has caused forced hedging of business, which isn't necessary in Saudi Market" (P26).

On the other hand, an exchange rate that has been pegged does not reflect the relationship that exist between the two currencies, neither does it reflect any change that might have occurred in both countries. Currently, Riyal exchanges 3.75 to a dollar, and this has remained the same even in the face of recession in the United States or economic growth experienced in Saudi Arabia *(P44).*

Participants brought up the financial crisis that has been rocking the country, and so proved that the pegged policy has been a step in the right direction.

"Following the crash of the stock market in 2006, which was then followed closely by global recession of 2008, a lot of country such as Kuwait suffered even despite having some form of stability in its currency" (P35).

"Egypt was affected too. Before the revolution, the dollar exchanged 4.8 to 5 pounds, but this value reached 8 pounds after the revolution. Investors in the country had lost between 30 to 35% of their investment due to the unfavorable exchange rate between Egyptian pound and US dollar. During this period, foreign investment in Saudi Arabia remained untouched, due to the pegged exchange rate" (P41).

The Kingdom has experienced stability in its political policy, and this has caused the financial crisis to have very limited impact, because of the conservative nature of political policy of Saudi Arabia. Participants believed that pegged policy is what the country really needs owing to fact that exportation of oil is done in dollars, and that the external reserve of the country in US dollar. (external reserve of Saudi Arabia is valued at $700 billion)

"In my own opinion, our country hasn't reached its full industrial potential as we still depend heavily on the petrochemical sector which is full with lots of limitation. The moment we link our oil production capacity with our currency, currency rate will increase due to high demand for Saudi Currency. But this policy will affect the economy adversely. This will definitely not augur well with the country as it has strived hard to maintain a balanced political policy, and the link the US dollar has with Saudi Riyal has affected investments outside the country as well as government bonds which are all valued in dollar. Should a breakdown in this relationship occur the estimated value of assets outside the country will be affected" (P6).

"This is quite troubling and reassuring at the same time. Our confidence comes from knowing that Saudi Arabia does not have a stand-alone currency, but has links with other currencies of the world particularly with the US dollar. What this means is that the riyal is linked with a currency that changes as the global economy changes. However, the United States had at last year battled with debt crisis, which of course isn't new to anyone, and this has posed a serious problem. It could be that the US has decided to increase its debt target. It is still very uncertain what will become of the global economy in the event that the US fails to pay off its debt" (P29).

Some participants believe that if the government liberalize the currency from being pegged against the US dollar, just like Kuwait did, the value of the riyal will increase against other currencies, and this will in a way affect exportation, causing a fall in export volume. This fall will be largely due to increased cost of production.

"This was what the United States experienced when the value of dollar strengthened, causing the price of commodities in the country to increase. In response, importation from China increased due to the weak value of Chinese Currency. To counter this,

China was pressurized by the US and EU to float its currency, which eventually led to increased cost of products coming from China. In yet another move, the US government made efforts to reduce the value of the dollar by buying euro in large quantity, thus reducing the amount of dollar used for export" (P5).

7.6.1 Effects declining Saudi Riyal have had on FDI

Different answers were put forward when participants were asked the question *"What effect do you think the declining Saudi Riyal and other major currencies have had on the inflow of FDI to Saudi Market?"*

The fall in the exchange rate of Riyal against other major currencies, has placed some sort of limitation on foreign investors. The Riyal has been pegged with the most common currency of the world. Most foreign companies prefer conducting their business in the US dollar. There were participants who believe that investment in Saudi Arabia has improved immensely, particularly for non-Americans. Following the fall in the value of the Riyal, investors have been motivated the more to invest in Saudi Arabia, largely due to the inexpensive nature of doing business in the country.

"Furthermore, investors have now found it attractive to do business in Saudi Arabia due to the low cost of doing business, thanks to the slight difference in exchange rate which has enabled investors accrue more profit, coupled with the low cost of production materials in Saudi Arabia, which has been attracting investors" (P26).

"Historically when Euro was used in business dealings, the Euro exchanged at a lower rate against the US dollar which then stood at 3 riyals to Euro. It now exchanges at 6 riyals while the dollar exchanges at 3.75. Commodities such as ceramics, granite and porcelain imported from Italy as well as cars imported from

Japan, dropped in volume due to the increased exchange rate with the dollar. This means that businesses that deal in dollar will have more confidence than those dealing in Yen or Euro" (P17).

"The country where the foreign investment is coming from will play a major role here, for example; the weakening of the Japanese Yen against Saudi Riyal has actually favored Japanese investors as they can now get more value for their money. Imported raw materials will also play a major role here. Investors importing from Euro Zone will have to fight with increasing cost of raw materials often imported from China, as the Chinese currency keeps strengthening." (P6).

Some other participants believe the US dollar should be the main currency for all business transaction, being the most accepted currency in the international market. Furthermore, the US dollar has a semi-fixed relationship with Euro, because their relationship is affected by supply and demand without any form of distraction *(P20, P28 and P40).*

However, another group of participants believe that the weakening of the riyal against Yen or Euro has not in any way affected FDI because the cost of production equipment and raw materials are often paid in USD.

"An investor that has plans of importing products will need some form of financial guarantee. This guarantee comes from knowing that the US dollar won't fluctuate against any other currency, and also considering the fact that most financial transactions around the world in done in US dollar" (P20).

Participants have also brought up a protection plan that will help FDI foretell when a fall in exchange rate will occur.

> *"Companies that have their employee coming from European zone will lose a sizeable amount of the revenue due to conflicting exchange rate. To guard against their employee salary from depreciating in value, most companies have adopted forecast planning" (P23).*

Local as well as foreign companies have adopted actualized strategies when anticipating differences in exchange rate. Hedging strategy which accommodates long-term support like three-year contract has enabled companies to buy up local currencies way ahead of time *(P24)*.

> *"When drafting the budget of a project for instance, it will become necessary to hedge the plan for currency, to guard against any loss. One benefit hedging offers is that in the event of a decline in currency, the investor won't suffer. It also helps protect currency dealing when executing a project, which helps avoid any form of delay" (P35).*

Furthermore, an additional step will have to be taken when conducting business with countries that do not use US dollars. Such step can be purchasing currency from banks and then seeking for insurance against changes in exchange rate. This should help a foreign investor guard their business against any change in exchange rate that may arise.

> *"It has enabled them transfer the risk of fluctuating currency to a third parties like banks, and this has helped offset the risk of changing currency rate. The third party will provide some form of insurance against any future lose, thus protecting the company from any form of risk that may arise due to change in exchange rate" (P7).*

Some participants were of the view that some companies have short-circuited the entire process by raising the value of the goods brought in from Europe, particularly raw material which is imported from Europe after being purchased using Euros *(P6, P37 and P50).*

Some other investors pointed out to the fact that most investors will rather import their raw materials from the United States than from Europe due to the pegging of the Riyal against the US dollar. The challenge here is that certain raw materials can only be sourced from Europe.

> *"It is more favorable for investors to deal with other companies in the United States due to the pegged exchange rate. This pegged exchange rate with the US dollar has affected transaction with other currencies" (P28).*

7.6.2 The possibility of increasing the Riyal's rate

Different opinions were put forward when participants were asked *"What do you think will happen when the government of Saudi Arabia strengthens the Riyal against the US dollar?"*

Most believed that doing so will increase the cost of doing business. Instead of the normal 7.5 riyal to $2, the value will fall to 7 riyals, leaving foreign investors with no choice but to pay more when sourcing for Riyal. With currency rate being closely linked to external trade, both import and export sector will be affected.

> *"In theory, the export sector is often affected adversely when currency rate gets high, or the value of currency becomes different. The best thing foreign investors ought to do now is capitalize on the country's elements of production by exploiting all existing resource such as land or capital. Foreign investors are attracted in their numbers when they can easily obtain loans from banks without being afraid of fluctuating currency rate" (P44).*

"In my opinion, this move will boost the purchasing power of the riyal, which will greatly benefit the citizens. Foreign investors coming with foreign currencies will have to source the riyal at a high value. In this instance, the dollar will decline in value as discussed earlier, and this will depend on a host of other factors. For instance, there are lots of risks that need to be taken into consideration some of which are economic and political risks. I don't believe that will create much impact on investment as profit will have to be calculated after taking into consideration all emergency situations." (P13).

In contrast, a number of participants welcomed this move. Rather than paying 3.75 Riyals to a dollar, we will only have pay 3.5 riyals. This will go a long way in raising the value of money.

"Instead of paying 3.75 million riyals for $1million, one will only have to pay 3.5 million which translates to a savings of 250,000 riyals. This is what we really want, as it will also go a long way in attracting more foreign investors" (P14).

Some participants pointed out two factors that are capable of increasing currency value.

1. The floating strategy which leaves the investor with no choice but to consider the future of the country. The economic condition of India and Turkey were two major examples that were cited.

   "Foreign investors have anticipated that the riyal will fall further from 3.5 to 3.4 and then pick up later. Should it happen that the dollar declines further, there will also be a fall in the real value of assets. This means that channeling investment operated in dollars to other sources, will likely cause a negative effect" (P33).

2. The second alternative will be increasing rate and then fixing it which is less risky due to the stable nature of the riyal which gives investors some level of confidence.

   "*I at first thought this will have a negative effect. For instance, I knew I will have to pay more when the riyal exchanged at 3.75 to the dollar than when it exchanged at 3.5. But the market was able to bounce back with time, and everything became as they were before. However, there will always be some form of decline at the start" (P26).*

Numbers of participants were of the view that this move would most definitely bear a negative effect on foreign investors due to the old relationship of the US dollar with exchange rate. The country will derive stability for its investments. Before raising exchange rates, it is important for a comprehensive study to first be carried out *(P14, P33, P35 and P47).*

Furthermore, investments done by Saudi Monetary Agency outside the Kingdom or within the United States needs to be put into consideration so as to determine the effect it will have on investments *(P35).*

On the other hand, some other participants believe it will be difficult to achieve a change in exchange rate due to high pile of debt valued at $670 billion, which the country had accrued, but it has been anticipated to rise again due to the recent sharp dropped of oil prices.

> *"The government by the mid of 2014 had the legal power to raise the value of the Saudi Riyal due to the domestic debt which has now fallen to 60 billion. This has left foreign investors being anxious because the cost of doing business will definitely increase, thus pushing up the price of things back at home. This may also affect their profit due to increasing cost. This means that their purpose of coming down to Saudi Arabia will then be defeated. For instance, the Japanese government has been putting in efforts in weakening the Yen, with the aim of increasing exports, and this can only be achieved when the strength of a currency falls" (P47).*

This move will help Saudi Arabia generate more revenue, but will cause the operating cost of companies to increase. Furthermore, this decision depends on lots of other elements that must be taken into consideration before implementing this decision, and is likely to have a negative effect on foreign investment due to increased cost and risk.

> *"Foreign companies seeking to invest their money abroad will find it expensive to do business in Saudi Arabia. When the value of the currency keeps increasing, it is the economy that will benefit the more because it will then be easy for companies to import products into the country. It will also be easy on the part of the government to release these products. This will cause imports to become cheaper and more abundant, but it will become more costly to export" (P52).*

Lastly, some participants suggested that proper consideration and brainstorming should be given before any attempt to raise the value of riyal against the dollar is implemented, and this should go through multiple stages. It is also important to have concrete plans on ground that will help develop the economy further.

> *"The first phase of this plan should be the gradual unpegging of the Riyal against the dollar. While this is being done, the riyal should also be pegged with other major currencies which have influence on Saudi economy. The next phase of the plan will be the diversification of the kingdom's external investment, and then distributing it in such a manner that it is well balanced across the global market and economies. This is a long term strategy that will need enormous amount of time. This means the government needs to develop a 5-year future vision for the Kingdom" (P29).*

7.6.3 The chances of the Riyal being pegged against a basket of other currencies

When asked the question *"How will FDI be affected when the Riyal gets pegged against a basket of different currencies?"* some of the participants argued that this has no form of relationship with foreign investors. It is an internal decision the country needs to take in linking to a basket of other currencies.

> *"The monetary policy has been confronted with the risk of fluctuation of other assets. There is no form of relationship between a foreign investor and this decision, not unless it is indirect" (P13).*

The majority of participants were in the view that the economic strength of most countries has been evaluated based on GDP and return size. However, if the riyal linked to a basket of other currencies that are of different weights such as the US dollar, Sterling and Euro. The moment any of this currency drops, the assessment of the country will be affected.

> *"If the country's economy has a rating of AAA which is the highest, there is a good possibility that this rating can fall to AA, A, or even BB or BBB. It is therefore important for foreign investors to first evaluate the assessment of a country to determine the risk level of the country before making any investment move. It is a well-known fact that foreign investors prefer doing business in countries whose exports exceeds its import" (P13).*

> *"When there is a break in two currencies that has been pegged, or one that has been linked to a basket of other currency, there is no guarantee that the stability that has been previously enjoyed will be continue" (P44).*

Furthermore, when countries that come to do business in Saudi Arabia are ranked, it will become clear that the United States has one of the topmost ranking. Any attempt to change the current relationship between the currencies, will result in instability. One gets to wonder what will become of the American economy when the dollar increases in strength. It means that the largest dealings in the United States will be exposed to bigger risk.

> *"The dealing with the United States is spread across different sectors of the economy, it is important for there to be some form of stability in exchange rate. This move may not necessarily attract more foreign investors and also create a long lasting relationship. This has to be taken into proper consideration before any decision is made on the part of the foreign investor" (P44).*

> *"It is likely that this will have a positive impact on the investor as well as the economy, but it is the investor that will benefit the more. It is a bad move to have our currency pegged against just one currency. There came a time when the US government tethered on the brinks of bankruptcy that almost made the country to sink deep. So to minimize risk, the wise thing that should be done is to have the riyal pegged against a basket of other currency." (P12).*

Some participants strongly believe that the riyal should be pegged against the US dollar for political and economic reasons.

> *"The United States has continued to be the biggest and most robust economy of the world. The US economy accounts for 25% of the entire economy of the world, while the whole of Europe accounts for the same 25%. Unlike Europe where so many countries will have to be consulted before any decision is reached, the United States has been independent at arriving at a decision. It was observed that the financial crisis affected both the United States and Europe. In my own view, the US market*

recovered at faster paces than European Market. The riyal has been linked to the US dollar which will definitely remain a dominant currency even in the next 10 years, as the dollar hasn't showed any sign of slowing." (P37).

However, a number of participants believe the government must spare no effort in redirecting to a basket of currencies. Participants believe that the best thing to do now is for the government to diversify the currencies it trades with, just like China has done. China has a well-diversified economy, owning the largest total reserve in the entire world.

"China which has now become the largest economy of the world has put the US dollar at the risk of losing its position as other economies such as the Chinese economy keeps experiencing rapid growth. Furthermore, there have been several disputes and conflicts on budget which has been exacerbated by the rift between the Democratic and Republican Party of the United States. There is every possibility that the dollar will still fall further due to these developments" (P41).

"Pegging the riyal against several other currencies will lead to an increase in the volume of investment. When it is linked to some other major currencies at a fixed rate, foreign investors won't experience any form of change be it loss or gain, and this is positive for the economy" (P53).

Some participants then went ahead to ask questions regarding the categories of the currencies that will be included in the basket, as well as their level of stability. Based on current economic realities, the most stable currencies are those of the British Pound, Euro and USD.

"Following the recent fluctuation they had all experienced, we can then accurately assume that each of the currency contained in the basket bears a weight of 33%. At first, it appears that the economy is having a positive outlook, but following the

depreciation of the US dollar coupled with the weakening of the Euro, while the British pound still waxes strong, there is a good probability that the core components will recover. Combining these three currencies rather than just depending on the dollar will create some sort of balance" (P26).

Some other participants believed that this decision will depend on the currencies that are selected, if a positive impact is to be felt. Saudi Arabia does not depend solely on the United States for its foreign direct investment.

"There are some other countries such as Japan and some countries in Europe whose economies have recovered steadily. Some investors come from these countries and this has helped diversify the foreign investment the country has" (P41).

"The impact has been a positive one. With the Riyal being linked with different baskets of currencies, this has helped opened more doors to global market. Owing to the fact that the riyal isn't linked to just one currency, it is then possible for the currency to gain strength against the US dollar and not the reverse. As most of the riyal's power come from oil business, the demand for the riyal will definitely continue so long as the demand for oil keeps increasing" (P5).

There were some participants who differed in their opinion regarding the impact this will have on the currency. They opined that the US dollar will still remain the main currency even in the face of a basket currency, due to the international status of the dollar.

"In my own view, the basket will contribute only 10% of other currencies. Unlike the currencies of other countries, the US dollar will most definitely remain the main currency in the basket, and so will the domination of the US dollar. Any form of volatility will only exist for a short while" (P6).

Anxiety and concerns were then raised by some participants concerning the effect this decision will have on FDI. They believed that FDI will depreciate in size, especially for investments that need to consider some risk factors before any decision can be made *(P14)*.

The actual reason for this, is that exchange rate will depend will have a direct relationship with the exchange rate of the different currencies, instead of relying on exchange rate of just one currency *(P21).*

Below are some likely problems that the participants *(P7, P21, P23, P33 and P41)* believe might occur due to this decision

- The advantage of fixed rate being lost, and this can prove a to be a serious challenge to investors
- The benefits that comes with trading on just one foreign currency (USD). But with currency basket being in place, dealings with other currencies will increase, and can even cause every nationality to have its own currency.
- The benefit that comes with monitoring the transaction of one currency (USD). Once the decision of a currency basket is reached, investors can then conveniently monitor all transactions with different currency.
- There are some other currencies that play a role in basket of currencies. They may not be as powerful as the US dollar, but they are capable of bearing a negative influence on currency of basket.

"There will definitely be fluctuations in the value of currency, and this will offset the balance in sectors that depend upon this changing rate. Raw material and the hotel sectors are typical examples as they are affected the most by demand and supply, which will have some effects on yield" (P23).

There were some who weren't too certain about the effect this decision will have on Foreign investment when fully implemented, because foreign investors will try all they can to protect the investment from currency volatility.

> *"The investors will protect their investments either by sourcing for contracts priced in dollar from the government, or buying foreign currency from banks in advance. Some other foreign companies have gone all the way to protect their investment against currency fluctuation by creating a hedge plan" (P1).*

The participants were in agreement that the continuous dependence of the country on oil will strengthen the relationship it has with the dollar, with the dollar providing a base for international economy. Even though there has been an ambitious dream of making the Saudi Arabian economy an independent one, the economy has yet remained an optimal one. It is true that the relationship with the USD has been favorable, it has only provided a temporary solution. The long-term vision should be creating a versatile economy, and so there should be a separation with the US dollar *(P29)*.

Lastly, there were participants who believed the policy of pegging with currency basket will need some form of amendment, if foreign investment is to be increased or decreased in Saudi Arabia. Considering the fact that risk will be more felt in the long term at first, investors will be negatively affected during this period of time. Foreign companies will then have to consider what impact this decision will have on the profitability of investment, as profit is the major driving goal behind any investment *(P7).*

7.7 Summary

In the chapter, there has been a qualitative debate regarding the effect of some economic variables are likely to have on FDI.

The increase in the price of oil has caused the government to be less concerned about FDI concept due to high income earned from the sector. Even though this has borne a positive impact on the growth of GDP, more foreign investors have been attracted to the Saudi Market

The current high rate of inflation being experienced has limited impact on the growth of FDI in Saudi Arabia. The high rate of inflation affected the World at large, not just Saudi Arabia. However, the high rate of return has attracted foreign companies, even in the face of high inflation. But if left uncontrolled, the high rate of inflation can affect the economy of Saudi Arabia negatively by reducing the purchasing power of its citizens, which will lead to increased import instead of export.

Employment policy has also been a major obstacle, as foreign investors are mandated to employ more Saudi citizens through Saudization policy. In most cases, the educational and skill level of Saudis is often not up to the requirement of these companies. The high rate of unemployment may cause a fall in profit of these companies due to decreased purchasing power.

The pegging of the riyal against the US dollar has created some form of stability for foreign investors seeking to maintain the value of their investment. However, the fall in value of the riyal against other currencies has only a mild effect on foreign companies that have business dealings with countries that do not trade on the US dollar. This has created an ample opportunity for other non-US countries to come do business in Saudi Arabia due to the low value of the currency.

There is very limited possibility of the Riyal increasing against the dollar. If it does, cost of production in Saudi Arabia will definitely increase, and this will affect the import and export sector. It will also have an impact on the confidence bestowed on monetary policy of Saudi Arabia and consequently on the foreign investment.

In spite of, pegging of the Riyal against a basket of other international currencies will adversely affect stability of monetary policy. This move can prevent foreign investors from coming to do business in the country due to the fear of losing their investment due to fluctuation in the exchange rate.

In subsequent chapters, our discussion will take into account the results extracted from previous studies, as well as the conceptual framework and relevant theories. Suggestions will be made on different approaches which can be used to develop all sectors of Saudi Arabia both in short and long term.

CHAPTER EIGHT: DISCUSSION OF FINDINGS AND RECOMMENDATIONS

8.0 Introduction

This chapter summarizes the results obtained from the previous chapters based on the regulatory, political and economic factors. The concluding part of this chapter comprises of recommendations aimed at improving and expanding FDI sector in Saudi Arabia.

8.1 Findings that relate to regulatory factors

In this section will discuss the following findings of chapter five (The Analysis of Regulatory Factors) are discussed:

- Barriers to FDI.
- Targeted Sectors of Foreign Investors.
- Methods of FDI entry into Saudi Market.
- Efforts made by the government in improving FDI sector.

8.1.1 Barriers to FDI

Section 3.1.1 identified the following sub-factors under the regulatory factor affecting the FDI: (1) bureaucracy, (2) regulation, (3) cultural impact, and (4) liberality. The following findings from the conducted interviews (sections 5.2, 5.5 and 5.51) were confirmed these sub-factors:

1. **Bureaucracy:** Bureaucracy was found to be a major barrier to the inflow of FDI to Saudi Market and most foreign investors have complained about it;
   - There is no concise government regulation for FDI.
   - There is no clear vision the government has for FDI; neither is there any short-term or long-term plan for foreign investors.
   - The foreign investment authority cares very little about quality or effectiveness, choosing to accord priority to quantity.
   - Foreign investors have been having a difficult time in obtaining licenses
   - The different orientation each government agency has towards FDI, has created some form of conflict.
   - Most government agencies have failed to update themselves when it comes to regulations regarding FDI.
   - Employees employed in these organizations have been conservative, being unable to catch up with the electronic transaction and management.

   These findings agree with Hafiz (2009) who identified the FDI unfriendly regulations, requirement for entering the country's market, and then difficulty in implementing laid out judgment, as the main barriers. However, the findings have mentioned to the government performance, which the literature failed to address.

2. **Availability of relevant information:** There is an acute limitation of vital information regarding investment licensing, employment regulation, and litigation of disputes in Saudi Market. Even the available information is difficult to interpret. Added to that, it is difficult to find written regulations at law courts owing to the fact that they rely on Islamic manuscripts. This same barrier was pointed out by Hafiz

(2009) who stated the sufficient information that should have been made available to foreign investors.

3. **Unstable laws:** Laws and regulations of Saudi Arabia have never been stable, and this has created a hindrance to the inflow of FDI into the country. Unstable laws cause long-term plans of foreign companies to change all the time. Kjathlan (2014) who observed this effect went on to state how important these laws are to foreign investments.

4. **List of forbidden investment:** There is a list of businesses which foreign investors aren't allowed to invest in, and this has equally created another barrier, and has limited the investment opportunities for foreign investors. Khathlan (2014) agreed with these findings and how they affect investment.

5. **E-government:** Electronic solutions haven't truly been welcomed by most government agencies, and this has caused tardiness in processing the request of foreign investors. Aleqt (2006) argued the finding of this literature, stating the efforts the government has made in improving FDI.

6. **Liberalism and Culture:** Liberalism and culture constitute as fundamental sub-factors; the following results have shown that;

    - most people believe that foreign investors are only interested in carting away Saudi's money. This believes has discouraged the inflow of foreign investment due to negative views held of foreign investment.

- Language and local culture have become a major hindrance to FDI, due to insufficient knowledge and poor awareness of the citizens' culture.
- Most of the regulations and relevant documents are all written in in Arabic. This has left foreign investors to rely on interpreters to convey the official information, and this often causes miscommunication as well as increased cost.

Khatlan (2014) went on to support these findings, claiming that socioeconomic conditions and culture has affected FDI in more than one way. Also, Fry et al (1995) asserted that a country needs to have an open-minded foreign structure if it is to attract a sizable amount of FDI.

7. **Media Concerns:** The media has created a negative picture of FDI, making Saudi Citizens believe that FDI will drain the economy, without adding any form of value. There are definitely some bases for this attack as the investment authorities have allowed poor investments (for example, small café, shop, wedding planning etc) to find their way into the country. So this loophole has been capitalized upon by the media in attacking foreign investments. Khathlan (2004) went on to support these findings, asserting the effect it has on FDI. The media has had huge influence on the perception of local culture.

8. **Challenges in Infrastructure:** Even in the face of multiple infrastructure projects springing up all around Saudi Arabia, there still exist infrastructure issues. Every sector is suffering from one form of deficiency or the other in infrastructure such as the absence of a Railway network, which has hampered development in most parts of the country. Khatlan (2014) agreed with these findings, stating that FDI only thrives

when there is sufficient infrastructure. In a similar study conducted by Bengoa and Sanchez-Robles (2003), infrastructure was also listed as a big determining factor for FDI.

9. **Local Labour:** Insufficient skilled labour has been a major challenge confronting foreign investment. Foreign companies are subjected to laws which mandate them to hire a particular percentage of Saudis in their employ, and this has been a barrier to FDI. These enforced laws on foreign companies have been taken account of by Bengoa and Sanchez-Robles (2003), Borensztein et al (1998) Guisan and Neira (2006) Alamri (2011) and Ahmed (2009), who all agreed that the growth of any economy is dependent on how FDI fuses with human capital.

8.1.2 Targeted Sectors of Foreign Investors

Based on the results obtained from qualitative study (section 5.3), all sectors of the economy that has been favored by FDI have been divided into different categories.

1. **Industrial sector** has attracted foreign investors who invest into manufacturing, due to the following reasons:
    - This sector has received top most priority from the government.
    - The strategic location of Saudi Arabia.
    - The export volume of the country has been on the increase due to the ease of connecting with partner countries.
    - Another influencing factor is the low cost of energy, coupled with the availability of raw materials needed for production.

- As Saudi Arabia right, being a country with the highest amount of oil and largest oil infrastructure. Most of foreign companies have always had their focus on oil exploration and refining of petrochemical products.

It can be seen that there exists a positive relationship between FDI and the industrial sector of Saudi Arabia. This finding correlates with the study conducted by Markusen and Venables (1999) alongside Haaland and Wooton (1999) whose made it clear that most foreign investors prefer putting in their money into the industrial sectors of countries where the cost of production materials is low. Khathlan (2014) confirmed this and notes that FDI relies on certain political as well as socioeconomic factors such as industrial regulation.

2. **Construction and infrastructure** also receives attention from foreign investors. What really has attracted foreign investors is the amount of effort the government has put into building up the country's infrastructure such as the transport network, and also the high level of demand being placed on real estate coupled with high value. Furthermore, local contractors have been unable to meet with the demands of this infrastructure projects. These findings correlate with literature of Shahabadi and Mahmoudi (2006) who support this finding.

3. **Retail sector** attracts some investors as the high consumeption attitude in Saudi Arabia has favours this sector. It has been identified as a major investment opportunity for foreign investors owing to the high purchasing power of Saudis which guarantees profits. Caves (1996) is in agreement with this as the increasing demand has led to increase in foreign investment. The entertainment industry which falls under the retail sector needs to be looked into by foreign investors. This is because

there is a remarkably scarcity of leisure and entertainment facilities, thus prompting a demand which foreign investment can take advantage of.

4. **The banking and other financial sectors;** One point of attraction in this industry is the high volume of liquidity present in Saudi Market. This statement correlates with the findings of Ibrahim (2013) which stated that the actual budget has recorded a surplus of 87.7 billion Riyal which represents a 5.4% growth in the country's GDP in 2010, in contrast to the 86.6 billion Riyal deficit which represents 6.2% of the GDP the previous year. This has prompted the need for financial institutions with enough capital base to give out loans which will be used to sponsor investments and projects.

5. **Education and Healthcare sectors** have received very little attention from foreign investors compared with other sectors primarily due to strict regulations by the government concerning. The truth is that these are lucrative investment sectors which have been expanding following the population increase being experienced currently in Saudi Arabia. Alfaro (2003) has giving a positive affirmation to this result, claiming that the impact of FDI hasn't been felt in other sectors the same way as in industrial sector.

6. **Agriculture** has had a very poor one non-existent relationship with FDI. The unpalatable attitude foreign investors have towards agriculture was taken into account by Liu et al (2013) and Karlsson (2014), as well as Heumesser and Schmid (2012) who after studying the level of FDI in agriculture discovered that agriculture constitutes less than 8% of FDI across the world, sometimes fallen far lower in some countries. Furthermore, Adewumi et al (2006) and Zimmy (2009) were both of the

opinion that sectors like the oil sector with high level of income attracts FDI the most, while the agricultural sector attracts the least.

Section 3.1.3 has identified two vital sub-factors (economic variables and economic growth), which Abdel-Rahman (2010) agreed as being a significant variable which stimulates the market to receive foreign investment. The previous results obtained so far have agreed with this literature and these sub-factors in terms of FDI inflow to Saudi Market. Following the increased expenditure of the government, Saudi Arabia has experienced rapid economic growth, and this has in a way stimulated more foreign investors to come do business in the country.

8.1.3 Methods of FDI entry into Saudi Market

Section 5.4 discussed the method by which FDI enters Saudi market. The two major challenges the investors encounter are in two areas; conservative nature of the society and bureaucracy level which meet the regulatory sub-factors (bureaucracy level and cultural impact), and this has for years impeded inflow of FDI into Saudi Market. Even after the government had implemented certain regulations regarding FDI, most of the foreign companies still prefer to partner with local companies instead of having to deal directly with the market for following reasons:

1. The local partner understands the market more than they do, and so will have the knowledge needed in overcoming common barriers to FDI such as unreceptive culture. More also, this sort of partnership shields the foreign company from pressure that comes from the distorted image the media has created about FDI. Chiao, Lo and Yu (2010) all agreed with this findings, after observing that foreign companies will try to develop a flexible system which needs to be familiar with different factors of the outside environment in the emerging market.

2. The local company they partner with tends to benefit the more as the foreign company brings along advanced technology as well as better office administration along with them. On the other hand, foreign company enjoy the benefit of having a wide customer base when they partner with local businesses as doing so will save them the trouble of having to build customer base right from the scratch. Furthermore, this sort of relationship has allowed foreign companies to get access to information about emerging opportunities in the market. Brucellaria (1997) agreed with the results of this findings, who then went on to prove that any strategic partnership struck between two companies benefits both of them in more than one way. This was corroborated further by Shukla, Gekara and Grosu (2010) who made it clear that it is not right for multinational companies to rely on self in adopting independent strategy, as the best thing for them to do is to implement merger and acquisitions to enhance their efficiency.

3. There is a consensus that investment authorities have failed to provide sufficient information regarding FDI in Saudi Arabia. To avoid costly business mistakes, it is important for foreign companies to enter into strategic partnership with local businesses as doing so will reduce whatever effect changes to investment regulations will have on them. This same set of barriers was also pointed out by Hafiz (2009) who was able to categorize all the barriers that exist in Saudi Market.

On the contrary, there are still a good number of foreign investors who prefer to deal directly with the market. These companies are large multinational companies who deal directly with the government via high investment contracts. Abdel-Rahman (2010) agreed with the results of these findings, going on to state that there are lots of government related programs in Saudi Market. There is yet another caliber of foreign investors classified as Multinational

Companies (MNCs) which are capable of entering different markets and then dealing with any condition present in the market due to the years of experience they have acquired operating in different markets of the world. This are also companies with very large capital base.

8.1.4 Efforts made by the government in improving FDI sector

It has been number of findings that prove the government has created high level services for foreign investors in sections 5.5 and 5.5.1. Even though the government has for several years relied on routines that are relevant to bureaucratic sub-factor in nature, there has been some commendable efforts to switch from this bureaucratic routine in an attempt to boost performance and flexibility. However, expecting this transformation to be effected in a very short time is a mirage, as it will need plenty of time. listing the efforts the government has put in improving FDI as follows;

1. There has been a commendable effort on the part of government to develop different sectors of Saudi Arabia, particularly the economic, social and governmental sectors. These efforts have yielded efforts following the trade agreement that was signed with World Trade Organization.

2. Recent FDI regulations implemented by the government of Saudi Arabia, is a clear prove that concrete actions are being taken with the aim of improving investment climate which will help create more value in the economy. Furthermore, all government agencies involved in foreign investment have all been placed in one place (the One Stop Shop). There has also been a commendable effort on the part of

government to create financial centres and economic cities with the goal of creating a suitable environment for foreign companies.

3. The country's bold move in developing the education sector through scholarship programs. This move has improved the quality of graduate students entering the labour market, as they are now qualified to work in foreign companies, while also participating in decision making process.

The above government transactions have been taken into account in the works of Al-Iriani and Shamsi (2007) as well as Aleqt (2006) in section 2.2.2 who also affirmed that the government has been putting in sufficient efforts in improving FDI that has been coming into the country. Furthermore, it has become clear that the government focuses on bureaucratic factors with the aim of enhancing administrative performance.

However, there are still certain limitation to the sectors of FDI that has not received sufficient attention from the government. These sectors have been ineffective in attracting FDI. This is because of the high level of bureaucracy as well and conflicts which abound in government regulations as follows:

1. Promotion of investment opportunities in the Kingdom, done mostly through diplomatic missions and embassies, which is barely enough.

2. It became evident that the experience of Saudi government towards FDI sector is no match for more advanced countries such as UAE and Qatar, who have more, experience that Saudi Arabia.

3. The fluctuations in laws and regulations have created uneasiness on the part of foreign companies. This has caused several foreign companies to wind up and move their investment somewhere else.

4. Foreign investors will have to go through several ministries and government agencies before obtaining their license. The requirement and terms of each agency varies. Several inconsistencies in laws and legislations being implemented. This has had a negative impact on FDI owing to the fact that it delays the issuance of license.

5. One major factor that has caused conflicts and differences in government agencies is the manner by which senior officials and employees manage FDI issues. Most of the employees do not have sufficient training to effectively deal with matters relating to FDI due to absence of professional training.

6. The failure of some agencies to adopt e-solutions in their business dealings has caused discrepancies among different institutions, and this has affected FDI negatively.

7. There is a general consensus that investment authorities should focus more on facilitation of licenses while also coming up with business development solutions, rather than chasing after taxes and fees.

8. Different sorts of investment have been allowed in Saudi Arabia. The concern here is that a good number of these investments are of low quality, adding very little value to the economy.

These findings suppose the negative perception being held by Hafiz (2009) and provide more special actionable details to the broad categories of the identified barriers.

8.2 Findings related to Political Factors

In this section the discussion will be on the findings of chapter six (The Analysis of Political Factors), based on the following:

1. How terrorism affects FDI?
2. The issue with Iran and FDI.
3. Nuclear program and FDI
4. Arab Spring and its effect on FDI.

8.2.1 How terrorism affects FDI

The discussion of terrorism activities in chapter 6 has been linked to the political sub-factors (government stability and internal conflicts) in section 3.1.2, It was found that there is a limited impact of terrorism on the inflow of FDI to Saudi Market due to the following findings (see section 6.2.1):

1. Acts of terrorism was affecting different areas of Saudi Arabia, and by 2005, it had reached its peak. The government of Saudi Arabia has made bold moves in curbing the activities of terrorists, by raising the level of security around companies owned by foreigners, as well as their place of residents. Other countries had to copy this move in fighting off terrorism.

2. A majority of the participants were of the opinion that terrorism had a limited impact and made following observations:

- The economy of Saudi Arabia was recovering quickly primarily due to sufficient liquidity. This was experienced event when terrorist activities had reached its peak in Saudi Arabia;
- During this period, most companies experienced a growth in their value as well as their asset;
- At the same time, the asset value of oil and petrochemical companies increased astronomically;
- Local banks operating in Saudi Arabia also had the value of their asset increased during this period;
- In the years that followed terrorist conflicts, virtually all the sectors experienced some form of growth, with more FDI coming into the country's market. It can then be assumed that acts of terrorism haven't really had much effect on foreign companies

These findings agree with Abu Fatim (2003) who demonstrated that the economy of Saudi Arabia had not been affected by this phenomenon (terrorism) but had a very limited effect which lasted a short time.

However, the opinions of Busse and Hefeker (2007) differed from this. The duo believed that FDI falls when internal conflicts occur. Some of the participants supported this viewpoint by identifying losses and risks associated with terrorism as:

In contrast, when the negative effect of terrorism is taken into account of FDI, it has become evident that:

- The media had their focus on trends of terrorism which is often targeted towards foreigners and foreign companies. The perpetrators of this have had it in mind to embarrass Saudi authorities while also damaging the national economy, which relies heavily on the oil sector which is targeted by foreign companies.

- Foreign companies allow their western employees to travel overseas and then stay for some time, then returning when everything has returned to normalcy.
- To motivate western employees to stay behind, foreign companies had increased their salaries.
- The security level in their place of residence was increased, so as to guarantee their safety.
- Number of foreign companies and investors were moving their offices to UAE or Bahrain, while still conducting their business in Saudi Arabia from there.
- Most of foreign experts preferred moving out of the country, seeking for a safer place to work. This has led to a fall in human resources, with only a few foreign experts choosing to remain in Saudi Arabia
- The message sent across by the US and Europe to their citizen, warning them to boost their security alert, led to the departure of most foreign investors.

Aldukheil (2004), also referred to the risks and stated that the terrorism is the major reason for foreign companies to remove foreign staffs out of the country. Yamani (2010) pointed out the negative effects of terrorism acts on the economy leading to losses for investors.

8.2.2 The issue with Iran and FDI

Section 3.1.2 identified four sub-factors on which the tension with Iran experienced by foreign investors. They are: government stability, internal conflicts, external conflicts and international relations. Following the Iranian revolution that ended in 1970s, there has been an increasing tension between Iran and Saudi Arabia, with differences in religious and political inclination being the major reason for this rift. The good news however is that FDI has never for one day ceased to flow into the country. Below are the findings from section 6.3 explaining why these investments haven’t been affected even amidst tension

1. Large oil and real estate companies coming from Europe and US establishing their investment close to conflict zones.

1. The United States and some other European countries have given top most priority to the stability and security of the Gulf region which contains most of the oil wells. The conflict between Iran and Saudi Arabia has been fought on foreign soil in Lebanon, Yemen and Syria. This is a proof of the importance of international relations as outlined in this conceptual framework.

2. One advantage Saudi Arabia has over most other countries is her expansive land, and this has enabled it to attract most investors with massive investment in industrial cities be set up in the north, south, west and central part of the country, with tension in Iran being of little influence.

3. The economic sanctions being imposed on Iran by the United Nations, has had impact on the oil sector, and this has been advantageous to Saudi Arabia, as the move made it the centre of attraction to most foreign investors. However, as the economic sanctions on Iran are lifted, there is a good possibility that Saudi Arabia will lose this competitive edge to Iran.

4. The economic sanctions placed on Iran, has caused it to look inwards alone when developing its manufacturing sector. If the sanction gets lifted, Iranian products will

most definitely flood Saudi Market, and this will bear a negative effect on the manufacturing sector of Saudi Arabia.

5. Ongoing tension in Iran has opened several investment opportunities across the Red Sea coast, with very little of this opportunities emerging in Arabian Gulf. This opportunity has attracted a reasonable number of foreign investors to invest their money into this side of the country.

6. Generally, most were of the opinion that investors only had their interest on things that are more weighty than the Iranian Tension. Investors have given most of their attention to internal regulation, regulatory factors as well as the ease of implementing laws.

In summary, these results fail to agree with the empirical study done by Busse and Hefeker (2007) conducting that external conflict bears a negative impact on inflow of FDI.

On the other hand, the instability in politics as well as the tension that exist between Iran and Saudi Arabia has had some form effect on FDI as following:

1. It has become evident that most foreign investors have turned their focus to short-term investment while also seeking for easy ways to move out their money, as a safety approach to safeguard their investment against any precarious situation such as the one witnessed in Iran.

2. Furthermore, foreign investment in eastern province has been affected adversely by Iran interfering in the domestic affairs of Saudi Arabia, as well as their support for terrorist groups who have cited religion as their basis for their attacks.

These findings agree with Abed (2010) who opined that the effect Iran has had in the region should be analyzed and taken into consideration.

8.2.3 Nuclear Programs and FDI

The discussion in this section focuses on the threat of Iranian nuclear program and the potential Saudi response on FDI.

8.2.3.1 Iranian Nuclear Program

In an attempt to link discussion of Iranian nuclear program in section 6.3.1 together with political sub-factors in section 3.1.2 (external conflict and international relations), it has become evident that foreign companies doing business in Saudi Arabia, have not been so concerned about Iran's ambitious nuclear programs as seen in the following findings:

1. Countries like Israel, India, and Pakistan have been independently working on their own nuclear programs, but this hasn't been much of an issue as foreign companies still keep coming into these countries.

2. The Iranian nuclear armament program hasn't been real enough, and this was exactly what was experienced in Iraq in 2003, which caused the destruction and invasion of Iraq.

3. It has been a difficult and complicated task to accurately evaluate the impact Iranian nuclear program has had on FDI in Saudi Arabia. For instance, North Korea has used its nuclear program aggressively to threat South Korea. Remarkably, South Korean has been enjoying economic prosperity, with its economy growing at astounding rate.

4. It has also been observed that countries such as UAE and Qatar, Bahrain, have also been enjoying economic prosperity notwithstanding their proximity to Iran.

5. Iranian nuclear program stands at 2 to 3 points on a 10-point scale, investors look into before deciding to invest in a country.

These findings fail to agree with the literature review of Busse and Hefeker (2007) concerning the effect external conflict has on FDI.

However, there are some strong negative perceptions expressed by the participants:

1. Nuclear programs perceived as being non-peaceful that is close to the borders of Saudi Arabia will create the impression of tension and instability in the country, and this will in a way affect the inflow of foreign investment to Saudi Arabia.

2. These programs have the potentials to start off major natural disasters around the borders of Saudi Arabia. These disasters can take the form of earthquake or radioactive contamination, and this has a way of driving away foreign investors.

These findings return us back to the opinion of Abed (2010) who believed that the threat of Iran and its tools should be taken into consideration.

8.2.3.2 Potential Saudi Nuclear Program/Weapon

A potential nuclear weapon program will have a negative impact on 8 out of the 12 sub-factors outlined in section 3.1.2 and 3.1.3. These are: (1) internal conflict, (2) stability in government, (3) external conflict, (4) international relations, (5) rate of market growth, (6) market size, (7) stability in currency and (8) economic variables. It has become evident that the case in section 6.4 is a complex one which depends on several sub-factors. The negative results which affect FDI have been addressed as follows:

1. Amassing nuclear weapons can lead to sanctions being imposed by the United Nation, United States and Europe. This is a discouraging factor to Saudi Arabia amassing nuclear weapons.

2. If the drive to obtain nuclear weapon still persists even amidst global rejection, there will be more stiffer sanctions, and this has the potential to cause acute decline of the economy, as well as depreciation of the currency, thus leading to fall in domestic investment and outflow of foreign investments. These findings all align with the Busse and Hefeker (2007) concepts.

3. Deposits stored in monetary reserves located in US and European banks will be frozen, with more economic embargo being imposed. When this happens, economic prosperity enjoyed by Saudi Arabia will be moved to other neighboring countries, with foreign investors exiting the country.

4. If the Saudi government rejects checking and visiting the nuclear facilities by International Atomic Energy Agency (IAEA), there will be more mass movement of foreign investors out of the country.

5. Furthermore, nuclear weapons have the potential to trigger instability in government, and can also cause environmental hazards such as nuclear radiation and earthquakes, and they all pose serious threats to the ecology.

6. When considering the Iranian case, it has become evident that the nuclear project being embarked upon by Iran has ruined a lot of foreign investments in the country. This scenario is possibly to occur the same in other countries pursuing nuclear projects.

7. It has been observed that foreign investment blossoms in countries that experience peace. Should the government of Saudi Arabia decide to pursue nuclear programs, there is a high possibility that stability being enjoyed in the FDI sector will fall.

The above findings showed that the political sub-factors in the likes of stability in government and external conflicts will bear a negative impact, thus causing further internal conflicts, as well as decline in international relations. These findings agree with Busse and Hefeker (2007), Amlin (2008), Solingen (2007) and Lippman (2008) in term of negative impact of nuclear armament program on FDI as well as on the economy as whole. The growth rate will drop; this will also affect GDP rate as well as market size which will also take a dive down, thus making local currency to depreciate in value. These findings argued with Loree and Guisinger (1995) and Abdel-Rahman (2010).

On the other hand, findings which support the development of nuclear programs for peaceful and defensive purposes are as following:

1. Nuclear armament will create an environment of perceived stability, which will tip the scale of balance in instable regions such as the Arabian Gulf.

2. Nuclear weapon will further drive foreign investors to believe that the government of Saudi Arabia has all it takes to defend itself as a country, hence ensuring that their investment is protected.

3. Nuclear armament has never being a new thing to Saudi government; neither has it been unexpected to Saudi ministry of defense. Ever since the 80s, Saudi Arabia has been relentless in having a fair share of advanced weaponry, particularly advanced versions of fighter aircraft, and also gone a step further in striking strategic partnership with China with the aim of securing extended range missiles. Nuclear armament will further strengthen the Saudi Military. Though it can be assumed that pursuit of nuclear armament will incur more military expenditure.

4. Pursuing nuclear programs for peaceful purposes in Saudi Arabia will has the potent to stimulate more investors to come and invest in the country, primarily due to the abundant energy for industrial sector.

5. Any nuclear program embarked by Saudi government will have to be overseen by foreign investors who have the needed knowledge and experience to handle this project, which ordinarily won't be found locally. What this means is that nuclear programs will in actual sense create more investment opportunity for foreign companies.

6. The Saudi policy has always been a balanced one especially when strategic decisions are being made, and this won't be any different from pursuance of nuclear programs. It is imperative for Saudi Arabia to seek the cooperation of International Atomic Energy Authority. Furthermore, there will be need for them to adhere to approved routines, while also adhering to all safety regulations.

7. The county must first have to start with nuclear project, considering the fact that rapid development as well as population explosion can cause a decline in oil production. As the amount of oil is produced won't be enough to meet the demands of exports, due to high demand for internal consumption.

These findings support Benoit (1978), who was of the opinion that increased military spending leads to further economic growth. However, it needs to be understand that the weapon of mass distraction is in completely different kind of military expenditure.

8.2.4 Arab Spring and its effect on FDI

When it comes to evaluating the effect that Arab Spring has had on the economy, as well as foreign investment in Saudi Arabia (section 6.5), three sub-factors which have been outlined in sections 3.1.2 and 3.1.3 have a direct link with Arab Spring: government stability, external conflict and economic growth rate, and have had a positive effect on the inflow of foreign investment diverting from unstable countries into Saudi Arabia as a result of the following findings:

1. The frequent in and out movement of investments from Arab Spring Countries to stable Gulf countries, has caused the volume of liquidity within the Gulf market to increase, causing a further growth in the economies of Gulf States.

2. While the Arab Spring lasted, Saudi Arabia was able to achieve significant growth in its economy, as indicative of the wide margin of gains recorded in the country's stock market, coupled with huge gains from foreign investments.

3. The Arab Spring further had effect on the citizens of Arab Spring countries, particularly on expats working in Saudi Arabia. They did not want to transfer their

money to banks located in Arab Spring countries, as they lacked faith in the financial system of these countries while the tense period continued. Collectively, these factors caused a decline in the amount of money being shipped to foreign countries, which has in a way aided the recovery of Saudi Arabia.

4. Furthermore, the harsh living conditions being experienced in Arab Spring countries have been responsible for the emigration of experienced and skilled workers to come down to Saudi Arabia and other Gulf States to work with lower wages. This trend has also been responsible to increased efficiency in human resources, as more skilled workers are willing to come and work for Gulf companies even at lower wages.

5. Some people have fears of a revolution occurring. However, the chaos and damage the revolution will have has caused even the most enthusiastic proponent of the revolution to abandon the revolution altogether. This twist of event has helped both Saudi Arabia and other Gulf state to attain greater stability in governance, and this has caused more foreign investment to flow into Saudi market.

6. Finally, the Kingdom has achieved political stability, as the monarchy has assured a smooth transition of power, coupled with the unflinching loyalty given by Saudi Citizen to the government which has culminated in economic prosperity.

These findings all agree with Abu Jamea (2013), who studied the positive impact of Arab Spring has had on FDI inflow to Saudi Arabia. However, the availability of skilled migrated worker from unstable countries has added a special actionable details to the broad discussion of Arab Spring event.

In contrast, in the beginning of the event there were concerns due to the uncertainties that was experienced by Arab Spring countries surrounding Saudi Arabia, as follows:

1. There was high convergence and contiguity amongst Arab countries; whatever happens in one country ends up finding its way to the next, both directly and indirectly. Furthermore, when Arab spring first started, it cut through the borders of Arab States, with its ideas spreading quickly over the internet. Thus, there were some risks that were being considered by foreign investors before coming to do business in Saudi Arabia.

2. Many are of the opinion that this kind of development (Arab Spring) with the gulf countries poses more threat than Iranian situation, or the nuclear program. Even in case of Arab Spring, several companies had put on hold their investment plans until a clear vision was achieved, and this move caused substantial losses to Saudi Market. This is because a foreign investor will first have to evaluate risk factors before coming to invest.

These concerns find support in literature, for example, Lucas (1990), Chan and Gemayel (2004) and Singh and Jun (1995) in section 2.3.4.1 which analyzed the effect of political risk factor on the inflow of foreign investment. Overall, these findings are in agreement with the model of Busse and Hefeker (2007) who were of the opinion that external conflicts impact FDI negatively.

Conclusively, both the positive and negative views attest to the fact that the situation is quite complex, but, it has become evident that the Arab Spring has been beneficial to Saudi economy, and has given room for increased inflow of FDI into Saudi Market while the event lasted.

8.3 Findings relating to Economic factors

Throughout this section, the discussion demonstrates the findings in chapter seven (The Analysis of Economic Factors) as the following:

1. Effects Macro-economic variables have had on FDI.
   a) Escalating price of oil prices and FDI (2005-2014).
   b) Inflation Rate.
   c) GDP Growth, GDP per Capita and Total Reserved with FDI.
   d) Rate of Unemployment and FDI.
2. The Impact of Riyal Exchange Rate on FDI
   a) Pegged Exchange rate and FDI.
   b) The declining effect of the US dollar, and Saudi Riyal on FDI.
   c) The effect of increasing the Riyal on FDI.
   d) The Potential of Pegging the Riyal with a basket of currencies and FDI

8.3.1 Effects Macro-economic variables have had on FDI

Going back to the section 3.1.3 of this study, it has been found that the impact of macro-economic variables has had on FDI outlined in this study has links to the three sub-factors; economic variables, market size and economic growth. The macro-economic variables contained in this study that affect FDI are: high price of oil, high inflation rate, rate of unemployment, growth rate of GDP, GDP per capita and total reserve (sections 7.1, 7.2, 7.2.1, 7.3, 7.4).

8.3.1.1 Escalating price of oil and FDI (2005-2014)

After studies were conducted into the escalating price of oil and the effect this has had on foreign investment in Saudi Arabia (section 7.1). Different findings have emerged with sub-factor (economic growth) in section 3.1.3 that shown negative impact on FDI as follows.

1. Foreign investment in countries with high-income level accrued from exportation of oil is of little use to the economy of the country. High price of oil means the country will offer its citizen's high wages, thus cutting out the need for foreign investment. This has caused the government of Saudi Arabia to attach little importance to foreign investment, tightening up regulations surrounding investments.

2. The increasing price of oil, has led to the increasing price of raw materials and other commodities which the manufacturing sector depends on. This in turn has caused an increase in the price of the final product.

3. The sharp increase in the price of oil has caused many oil consuming countries to search for other oil sources instead of depending solely on Saudi Arabia and some other Gulf countries. Shale oil is the major outcome of this investigation, as it has had a negative impact on the economy of Saudi Arabia.

4. Furthermore, the continuous cycle of increasing oil prices, is indicative of when oil prices reaches their peak, followed by severe declines and this has high negative effect on oil producing economies such as Saudi Arabia.

These findings align with Yazdanian (2014), who believed that oil-exporting countries hardly attract FDI. Furthermore, Ng (2010) came to the conclusion that the patterns of inflow of FDI to other countries cannot be used to explain the pattern of inflow of FDI into oil exporting.

On the contrary, some findings have shown that increasing price of oil actually attracts FDI. These finding have been merged with three sub-factors in section 3.1.3; economic variables, market size and economic growth as following:

1. The economy of Saudi Arabia which is heavily dependent on exportation of oil has brought about increased liquidity within the markets. This increased liquidity has lured several investors to come invest in the country. These findings align with Murinde and Eng (1994), Zervos (1998) and Hussein (1996), which all agreed that the financial growth has stimulated growth of FDI.

2. The government of Saudi Arabia has provided support for fuel consumed locally, and this has made it one of the cheapest in the World. This singular reason has attracted lots of foreign investors who are seeking to widen their profit margin from 20% to 30% by cutting down cost on energy. These findings have been validated by Razmi and Behname (2012), who were of the view that FDI targets countries with lower cost investment.

3. With the price of oil steadily increasing (between 2005 to 2014), the government due to expanding national budget had put in more money to infrastructural development, with giant projects. This massive spending had been an attracting factor to foreign investors who came into the country with the aim of partaking in these government projects, due to the lack of local contractors. This outcome is supported by the

empirical study conducted by Shahabadi and Mahmoudi (2006) who investigated the influence of government spending has on FDI.

4. Increased government spending, has led to rapid transformation in increasing the purchasing power with the demand for real estate, retail and service sectors significantly. This had created more business opportunities for foreign investors. This finding has been validated by Chakrabarti (2001), Mahmoudi and Shahabadi (2006) and Akin (2009), which emphasized on the influence wages and market size has on FDI.

5. While the United States and some European Countries in 2008-2009 were going through recession, Saudi Arabia enjoyed steady financial prosperity, particularly due to the increasing price of oil, which had spurred lots of investors to come down to Saudi Arabia to invest. According to explanations provided by Haj-Kacem (2014), all countries do not have the same economic growth rate. Furthermore, this finding has been supported by Schneider and Frey (1985), who explained that the difference in FDI in different regions has been due to economic and political differences.

These findings are supported by Khusanjanova (2011), who was of the opinion that FDI plays an important role in oil exporting countries, as it has helped improve investment condition and has a great tendency to increase with increasing oil prices.

8.3.1.2 Inflation Rate

Section 7.2 and 7.2.1 have discussed the impact of inflation rate on the growth of FDI inflow to Saudi market (2007-2011). This issue is linked with the three major economic sub-factors (economic variables, market size and economic growth) in section 3.1.3 and two political sub-factors (government stability and international relationship) in section 3.1.2.

1. Inflation has been majorly due to the rising cost of oil. Compared against the cost of oil in the 80s and 90s and inflation taken into consideration, the current oil prices (2007-2011) was still higher, i.e. oil prices was higher in real terms.

2. When comparing inflation rate (2007-2011) with other gulf states where inflation rate was higher, the cost of living in Saudi Arabia was much lower. However, low income rate of employment into public service, has made it difficult to meet with the low cost of living in Saudi Arabia.

3. Inflation isn't exclusive to Saudi Arabia, its effect can still be felt in most other countries. Furthermore, while economic recession lasted, so many countries suffered slowed economic growth, and this led to investment being shipped to other countries such as Saudi Arabia.

4. One explanation behind increasing inflation rate has been the pegging of the Riyal against the US dollar. At a time, the US dollar declined in value against major currencies such as Sterling, Euro and Yen. This led to inflation in Saudi Arabia. This finding has been supported by the literature of Almeshal and Albahoth (2004), who provided explanations to the influence pegging of the riyal, has had on the economy of Saudi Arabia.

5. Even though inflation was still in place, investors were still able to achieve wide profit margins, in a short time, which they wouldn't have achieved in other countries

with high inflation rate. This finding relates with the findings of Hansen and Rand (2006) regarding foreign companies who move down to Saudi in search of greater profit.

6. Most economic literature is based on optimal modules and economic principles. However, there are still other factors that affect FDI and they include; interest and anxiety rate, conflict in petroleum and instability. It has become evident that there are other influencing factors, as Razmi and Behname (2012) agreed that macroeconomic and trade variables impact the growth of FDI individually or by compounding their affect

7. Furthermore, the cost of raw materials such as fuel has been lower in Saudi market than in other countries. These findings have been supported in the literature of Razmi and Behname (2012) who opined that foreign investors prefer doing business in markets with low operating cost.

8. Some companies had already decided to start their business in Saudi market before inflation rate climbed. It then became difficult to exit the market, as no one knew for sure the trend of inflation rate.

9. Most foreign companies entered into the petroleum and petrochemical industries, due to the perceived profit the industry had to offer, as well as its ability to recover from inflation. The coming of these companies increased market liquidity, with hugeamount of money being pumped into oil projects which explained the increased volume of FDI during that period. Literature of Dutt (1997) and Haaland and Wooton

(1999) support this, stating that FDI was positively impacted by the growing of industrial sector.

10. Some other foreign investments were channelled to government projects due to increasing government expenditure. Local companies did not have the capacity to implement these projects. Furthermore, local banks did not have the financial base to finance these projects.

11. Some findings have shown that most investors aren't so concerned about inflation; they are concerned with security of their investments and political stability. These findings have been supported by the literature of Lucas (1990), Singh and Jun (1995) who took into consideration civil risk and environmental working condition.

12. Massive growth in FDI can be attributed to efforts of some countries to improve their relationship with Saudi government, such role of international relationship is supported by Lucas (1990) and Singh and Jun (1995), who identified that political and economic factors affects FDI.

13. Increase in foreign investments was also due to increase in stock market. Between 2007 and 2008, In spite of the inflation rate, Saudi market index held steady at 4500 points, and this encouraged more foreign investors to invest as they reaped profit of 20% in just one year. This finding is supported by Levine and Zervos (1998) who was able to prove that liquidity in stock market as well as development in financial sector spurred growth in the market, hence attracting FDI.

It has been found that the results were in complete agreement with Omankhanlen (2011), who agreed that inflation has only very mild effect on FDI. This effect isn't enough to prevent FDI from flowing into the country.

On the other hand, the following factors may have negative influence due to high inflation rate on FDI:

1. Inflation bears a negative impact on foreign investors intending to do business for an extended period of time, and this has led to slowing of project, financial losses and harming export sector.

2. Making a decision during period of high inflation is hard for foreign investors. They are uncertain if the inflation will last for a short or long period of time.

3. With inflation rates rising, it is the citizens that will suffer the most as their purchasing power will decrease. This can lead to the disappearance of middle class.

4. During periods of inflation, both individuals and companies alike are affected, as obtaining cash would be difficult. As prices of commodities increase, cost of doing business will increase as well, and this will lead to fall in profit.

5. Inflation affects different categories of investments, with transportation, luxury product and entertainment being the most affected due to the falling in purchasing power.

6. The government of Saudi Arabia has created additional benefit for the citizens like increasing salaries of government employees and paying salaries to the unemployed,

which has contributed to inflation. However, Shahabadi and Mahmoudi (2006), opined that increased government spending has influenced FDI positively.

7. Foreign companies have tried their hands on different options with the aim of mitigating the effect of inflation. Some have decided to set aside a proportion of their annual budget that will cover up for increasing inflation. Furthermore, some companies chose to merge with other companies so as to increase their liquidity.

The above findings tend to agree with Narendra (2014) who support that inflation weakens inflow of FDI and has negative effect. While the Saudi economy may have seen increased FDI, we cannot know how much potential FDI was lost due to these factors

8.3.1.3 GDP Growth, GDP per Capita and Total Reserved with FDI

The influence of GDP on foreign investment is significant for foreign investors in term of entering a market (section 7.4) as following:

1. The economy of Saudi Arabia had recovered steadily following the increasing price of oil in 2005. This had spurred the government in increasing its spending on infrastructural projects. With the GDP of the country increasing, more foreign investors had come seeking to participate in these projects.

2. It can’t be denied that the oil sector had been the reason behind the growth of Saudi economy. In addition, foreign companies had spent billions of dollars investing in oil sector, and this had in a way caused growth in the country’s GDP.

3. As the government continued to increase its expenditure, the value of domestic markets had increased and this had in turn led to increase in purchasing power. All these factors bear some effect on Saudi Market.

The findings agree with Chakrabarti (2001), Shahabadi and Mahmoudi (2006) and Akin (2009), who were all of the opinion that high GDP signifies high FDI.

When attempts in section 7.5 to find out the relationship between FDI/GDP with GDP/Capita (section 7.5.1) and Total reserves (section 7.5.2), no form of substantial relationship was found. No particular pattern could be identified among the variables. This isn't the same in most other cases where FDI increases as GDP/Capita ratio and Total reserves as can be seen in other data set. This has very little effect on FDI. The result of this agrees with the concept of Akin (2009), who stated that GDP per capita isn't an effective indicator of FDI activities in a country, neither has the literature of Khachoo and Khan (2012), who discovered that there exists some form of link between total reserve and FDI.

8.3.1.4 Rate of Unemployment and FDI

The influence of unemployment rate on FDI discussed in section 7.3 was based on four sub-factors outlined in sections 3.1.1 and 3.1.3 and they are: bureaucracy, regulations and cultural impact (regulatory sub-factors) and economic variables (economic sub-factor). The following findings show there are some certain sectors of the FDI which were barely affected by unemployment:

1. Educated workforce bears considerable influence on FDI. This ensures investors are able to efficiently manage their investments so as to get the most out of their investment.

2. The Saudization policy has affected FDI in some way, as foreign companies are mandated to employ Saudi Citizens, so as to cut down on unemployment.

3. The average Saudi worker earns $800 and this is quite low when compared with other countries. Though this has been beneficial as it has created more availability for Saudi workers. The finding agrees with the empirical study of Shahabadi and Mahmoudi (2006) who observed that FDI increases when there is an abundance of labour.

4. The government has actively participated in paying the salaries of Saudi workers. The government than went further mandate foreign companies to train Saudi Citizens so as to make them fit well into any sector they have chosen.

5. The mandated proportion of Saudization is quite reasonable. Added to this, the increased percentage of Saudi workers in companies, have reduced the money the companies spend on importing workers and the cost of securing work permit.

6. Some believe that the unemployment phenomenon isn't completely true, considering the massive amount of developmental projects going on in Saudi Arabia.

7. Added to this, unemployment affects males and females alike. While men enjoy abundant career opportunities, the story is completely different for women.

8. National employment has witnessed some growth, owing to the increased number of academic qualifications either obtained locally or from foreign institutions or local ones. They were able to gain relevant skills which empowered them to interact efficiently.

These findings agree with Balasubramanyam et al. (1999), and Bengoa and Sanchez-Robles (2003), who were able to prove that economic growth is achieved when positive relationship exist between FDI and labour. Furthermore, these findings agree with Blomström et al. (2003), Majeed and Ahmed (2008), Borensztein et al. (1998) and UNCTAD (1994) who were of the view that high level of education is a major pillar upon which FDI is built on. However, the findings have contributed to the literature that the social and culture tendency are influencing foreign companies towards the local worker.

Arguments relating to the impact of unemployment on Saudi FDI have been discussed too. Most believe that the recently introduced of Saudization policy has impacted the stability of Saudi Market as following:

1. The restrictive laws the government has implemented, has been driving away foreign investors. There has been a shortage in the number of workers willing to accept low-level jobs. Added to this, the educational qualification of most Saudi graduates, is out of tune with the realities of the market today, being more like to government sectors.

2. Some also believe that the Saudization policy which mandated equality in employment for all sectors irrespective of their category, has led to the fall of foreign investments. For instance, the construction and contracting sector absorbs more than 95% of the entire foreign labour, unlike the banking sector which makes use of local labour for its operation.

3. Saudization policy has increased operating risk of the foreign companies due to growing number of frozen or cancelled business licenses if the company failed to apply this policy.

4. The problematic nature of Saudization policy, has forced foreign companies to employ Saudi citizens with little education and training.

5. Such regulation has had a negative impact on the working relationship between the companies and their Saudi employees, and this has led to the disappearance of mutual trust.

6. It’s been found that most Saudi citizens prefer working in government sectors due to the high stability and easy working environment in the sector. The government sector in most cases pays better than the private sector.

These findings are validated by Busse and Hefeker (2007) and Khathlan (2014), all agreeing about the effect of restricted law has on the FDI. Furthermore, these findings also highlited some of the negative factors been listed by Hafiz (2009).

8.3.2 The Impact of Riyal Exchange Rate on FDI

Section 3.1.3 outlines the vital sub-factor (currency stability), which is taken into consideration for any FDI. The findings of the sections 7.6, 7.6.1, 7.6.2 and 7.6.3 have been discussed to validate this sub-factor.

8.3.2.1 Pegged Exchange rate and FDI

The following findings of section 7.6 have opined that the stability in exchange rate of Saudi Riyal against US dollar has been one of the major pillars of foreign investment as well as the country benefits a lot:

1. The Saudi Riyal has held steady against the US dollars ever since 1986 till now. This has helped both the riyal and investments in Saudi Arabia maintain their values.

2. There is a slight variation in the cost of imported commodities, with items bought in US dollars varying from those bought with the Euros due to fluctuation in exchange. It is for this reason that investors prefer buying the raw materials using the dollars.

3. The monetary policy which the government of Saudi Arabia has implemented, has affected the economy to some extent. This is particularly true considering the fact that the country's economy depends largely on oil which is sold in US Dollars.

4. Economic crises such as the stock market crash of 2006 and global mortgage crises of 2008, hasn't affected the economy of Saudi Arabia, which has remained stable even in the face of this instability. Pegging of the Riyal against the USD has created some form of stability, and this has had a positive impact on the financial polices of Saudi Arabia.

5. The relationship between Saudi Riyal and the US dollar has impacted government owned investment such as bonds. These investments are evaluated in USD, and so any break in this relationship will adversely affect these investments.

These findings are in agreement with Campa (1993) who stated the fluctuating exchange rate is a major concern for foreign investors. In addition, Horstmann and Markusen (1992) along with Dixit and Pindyct (1994), agree also that the fluctuation in currency affects both production cost and profits as well. Omankhanlen (2011) has stated the stability of local currency is a major parameter for FDI. The findings have shown that the policy of pegged exchange rate had protected the economy from financial uncertainty.

However, some participants identified potential limitations of the pegged currencies as:

1. The exchange rate between the two currencies which has been pegged does not give a clear picture about the economic conditions of the two countries. The dollar which exchanges at 3.75 riyal to a dollar has been this way regardless of any buoyant economic condition of Saudi Arabia.

2. The US economy has in recent times suffered from economic recessions. The economy of the United States was confronted with debt crises in the last few years which compelled the government to raise debt level. Should the United States fail to settle this debt, The Saudi currency will be affected unnecessary impacting the Saudi economy.

8.3.2.2 The declining effect of the US dollar, and Saudi Riyal on FDI

In an attempt to truly understand the effect of declining Saudi Riyal has had on FDI (section 7.6.1) the following findings reveal limited impact:

1. The decline has limited impact on foreign investment generally due to the influence of the US dollar, being the most commonly used currency globally by multinational companies used this currency globally.

2. The decline in value of the Riyal against euro and yen had very little effect on the price of imported commodities, as these commodities are bought using the dollars.

3. The fall in the value of Saudi Riyal, has created more lucrative business opportunity in the Saudi Market to investors based outside United States, largely due to low cost of doing business. Converting to Riyal from other currency fetches them more money.

These findings aren't in agreement with Aleqt (2008), who observed that the economy of Saudi Arabia went through woes as the dollar depreciated.

On the other hand, it has been found that the import sector from countries in Europe and Japan, who do not deal with the US dollar, have suffered. The cost of importing in these countries is very high, and this has affected the future plans of foreign companies. Additionally, the impact of depreciation has been different for different companies due to differences in their function as well as their relationship with the import and export sector.

These findings have been given credence by Almeshal and Albahoth (2004), who believed that depreciation, has had a negative impact on the export sector, and has also affected the import sector at the same time.

To minimize the risk of a depreciating Riyal, foreign companies have adopted different approach as discussed below.

1. Prediction and forecasting to offset the continual changes in prices.
2. Companies have turned to "hedging" which allows them to buy currency in advance.
3. Companies pass the cost of the fluctuating currency to their consumers, by increasing the cost of their product.

8.3.2.3 The effect of increasing the Riyal on FDI

The findings below were obtained when attempts were made to apply grounded theory in generating new findings (section 7.6.2). The findings show limited impact of any decision about increasing the value of Saudi Riyal on FDI.

1. There are two likely factors that can raise the currency's value; (1) floating-currency policy. This option affects long-term plans of foreign investors, as other countries which have adopted this strategy, have had different negative results. (2) fixing the

rate of exchange, this option wont affect the value of the Riyal, hence giving more confidence to investors.

2. Obtaining loans from local banks to carryout FDI projects won't be influenced by this decision. The loans will be in local currency, with profits, expenses and loan repayment done in Riyal.

3. Most believe that the market will suffer shock and chaos at the first stage of changing the value of Riyal. This effect will depend on the nature of the project being implemented, and also the existence of new projects. This chaos will last only for a short while, until investors and the market alike adapts to these changes.

4. Investors will adopt protection plans, either by opting for government contracts valued in dollars, or hedging. These hedging plans will be used to guard their investments against currency fluctuation.

On the contrary, there are some findings that point out the negative impact this decision will have.

1. Decline in foreign investor's confidence in the economic system of Saudi Arabia. One question that needs to be answered is the willingness of the government to frequently adjust financial polices so as to increase the value of the Riyal. Furthermore, Saudi Arabia will lose its reputation of being a country with stable exchange rate.

2. Questions have been raised regarding the security of future investments owned by the government, which are valued in US dollar. The government is bound to lose some

value from these investments, and this will effect the country's economy, thus weakening investor's confidence regarding the stability of the economy.

3. Any increase in the exchange rate of the Riyal, will result in an increase in the commodities and operating cost for investors. This increase will then cause the competitive advantage of their product to vanish. Some investors will take their money elsewhere where exchange rate is low.

4. This will lead to recession in the export sector, due to increasing cost of products when compared with other foreign products. Added to this, investors will have no choice but to import raw materials instead of buying locally. This will lead to the collapse of the industrial sector.

8.3.2.4 The Potential of Pegging the Riyal with a basket of currencies and FDI

It has been purported that the government of Saudi Arabia has decided to break off the relationship the Riyal has with the US dollar (section 7.6.3). The Riyal will then be linked to a basket of major currencies. Below are some of the negative effects this decision will have on foreign investments in Saudi Arabia:

1. This decision will heighten the potential risk involved when investors are entering into Saudi Market, because the local currency will suffer more volatility due to currency fluctuation. This fall in credit rating will cause a decline in investor's confidence, eventually causing them to take their money to other countries with stable credit rating or applying hedge plans.

2. When level of cooperation, partnership and alliance of Saudi Arabia with United State is considered, it will be observed that the two countries have strong business ties. This relationship has economic, strategic and military inclinations. This sort of relationship has created stability in the economy of Saudi Arabia. If the government decide to break relationship, the value of the US dollar will definitely rise. Furthermore, some form of disorder will creep into the economy of Saudi Arabia due to unexpected fluctuation in foreign investor's confidence in Saudi economy.

3. Due to the fact that 90% of Saudi Economy is dependent on oil, which is valued in US dollar. This option isn't ideal for Saudi Arabia considering the fact that the economy depends almost on oil.

4. Even amidst the basket, the US dollar will still dominate other currency being an international currency. It has been speculated that while other currencies in the basket will have a 10% weight, the US dollar will have a 90% weight.

5. If Saudi Arabia decides to break the pegged relationship between Riyal and the USD, the value of the Riyal will appreciate against other currencies and this will have an adverse effect on the export sector. This will lead to increase in the cost of production, which will in turn lead to fall in export volume. The literature of Almeshal and Albahoth (2004), who argued that the current currency policy has increased the cost of payment as a result of the increase in import sector.

On the contrary, there are some findings indicating that this decision will have a positive impact.

1. This decision can be a wise move which ought to be implemented as soon as possible with the slowing of US growth, coupled with its debt crisis with good possibility for further crisis which will cause a decline in the value of the US dollar.

2. Linking the Riyal to a basket of other currencies has the potential of increasing the power of Saudi economy. However, this will depend on the type of currencies contained in the basket, as well as the weight of each currency. If the value of one of the currency contained in the basket should drop, the risk ratio will be reduced, and this will attract foreign investment.

3. Basket of major currencies will become a necessity with emerging economies such as Saudi market. China has the largest volume of foreign currency in their reserve due to its rapid economic growth. With the scene in international economy changing, the government of Saudi Arabia ought to take steps in diversifying currencies contained in its baskets.

4. By diversifying the major currencies that has links with the Riyal, investors will be encouraged the more to come invest more and implement their long term investment projects in Saudi Arabia.

5. So many are of the opinion that the relationship the Riyal has with the US dollar will soon break up. These belief is built on the fact that the Riyal will grow in strength due to high level of oil production in Saudi Arabia. The support the oil industry gives to the Riyal is stronger than the support offered by the US dollar.

Lastly, this decision will either cause a decline or expansion of investments plans in Saudi Arabia. Should this happen, risk involved with long and short terms investments will be increased, and this will bear a negative effect on investors during this period of time. Investors will have to fully evaluate their return on investment because profit is the major drive behind companies investing in a country.

8.4 A Summary of Main Findings

Most of the findings contained in this study, have been summarized. These findings account for the main factors involved in this study, presented as the significant outcomes.

Added to this, the researcher has outlined some thoughts regarding foreign investments which ought to be taken into consideration by investment authorities in Saudi Arabia when trying to develop rules and regulations for future business transacting. The researcher has gone a step further to outline some suggested actions which needs to be implemented by the government so as to attract more foreign investors to the country.

8.4.1 Regulatory findings

1. It has been observed that most foreign companies still make use of the traditional means of entering Saudi market; partnering with local businesses rather than entering on individual basis. The finding highlighted some weaknesses contained in FDI policy for Saudi Arabia as given below:
    - The bureaucracy involved in issuing licenses to foreign companies
    - Fluctuating FDI polices which has caused decline of foreign investments entering the market
    - Increased forbidden list of investment for FDI, which has forced foreign companies to partner with local businesses so as to escape this barrier.

- The required information not made easilyavaliable, which has made investors turn to local businesses so as to obtain the information.

  (Chap 5 pp. 119-124; Chap 8 pp. 213-217 pp. 220-222)

2. Putting aside government's unfriendly policy towards FDI, internal consciousness of local culture towards FDI, has also been a major challenge to foreign companies coming into Saudi Arabia. It has been difficult for cultural groups to accept FDI. The local media has made matters worse by depicting FDI in bad light among locals. (Chap 5 pp. 119-123; Chap 8 pp. 215-216).

3. The Saudization policy that was implemented just recently has in no way helped in the creation of jobs. As a matter of fact, the policy has done nothing but to hinder the inflow of FDI (Chap 5 pp. 120; Chap 7 pp. 180-186, Chap 8 pp. 217, pp. 247-250).

8.4.2 Political findings

1. The activities of terrorist groups within the past few years, have fallen drastically due to concrete actions undertaken by the government to curtail this ugly trend. With new terrorist groups emerging, Saudi Arabia's FDI is still being threatened (Chap 6 pp. 144-147; Chap 8 pp. 225-227).

2. Boundaries shared between Saudi Arabia and Iran, has been subjected to high tension, and this has led to the creation of abundant investment opportunities in the eastern provinces where tension is non-existent. This districts offer more security to foreign investments (Chap 6 pp. 151-154; Chap 8 pp. 227-230).

3. Iranian nuclear program hasn’t been considered as a serious threat to foreign investment. It has only had a mild effect on the decision of foreign investors (Chap 6 pp. 155-156; Chap 8 pp. 230-231)..

4. If the government of Saudi Arabia goes ahead to acquire nuclear weapons, the economy will be adversely affected, with economic sanctions capable of freezing external investments being imposed. If this happens, FDI will rapidly decline due to anticipated fall of the economy (Chap 6 pp. 156-159; Chap 8 pp. 231-235).

5. If the government decides to pursue nuclear programs for peaceful purposes, inflow of FDI will increase and this will in turn improve the quality of investment made by foreign investors due to advanced technological development (Chap 6 pp. 156-159; Chap 8 pp. 231-235).

6. The Arab Spring event had in a way created expanded business opportunity in Saudi economy, and this event has increased the flow of FDI coming into Saudi market. Investors had to move their investments from Arab Spring countries to Saudi Arabia due to high liquidity and stability the Saudi market offered at that time. (Chap 6 pp. 159-162; Chap 8 pp. 235- 238).
7. It became evident that external conflicts which took place in neighbouring countries made foreign investors switch to short-term investment strategies. With this strategy in place, foreign companies could easily and swiftly move their investments out of the country should any political conflict occur (Chap 6 pp. 154; Chap 8 pp. 229).

8.4.3 Economic Findings

1. Foreign investors prefer operating in the industrial sector due to a number of reasons which are as follows:
   - High support from the government
   - Low cost of securing raw materials like fuel
   - High ROI the sector enjoys
   - Rapid growth being experienced in petrochemical and petroleum industry
   - Rising demand for internal markets
   - Expansion of the export sector
   - Stability of Saudi currency

   (Chap5 pp. 124-127; Chap 8 pp. 217-218).

2. The Agricultural sector on the other hand has received the least attention from foreign investors, because it does not offer the profit other sectors offer in short term. This finding does not agree with the plans government has in developing Agro-Industrial cities which will be located in the northern and south-western parts of Saudi Arabia (Chap 5 pp. 129; Chap 8 pp. 219-220).

3. Oil prices which has been falling since 2014 has spurred the government of Saudi Arabia to look to other alternative sources of income. When oil prices were high, the government failed to accord importance to FDI sector (Chap 7 pp. 166; Chap 8 pp. 239-240).

4. The effect of inflation on FDI coming into Saudi Arabia isn't conclusive yet. Even in the face of increasing inflation rate, politics and other macro-economic factors have had their influence on FDI. Foreign investors have had their attention on investment

returns, government bureaucracy and economic stability, caring less about inflation. This finding disagrees with literature that FDI is adversely affected by inflation rates (Chap 7 pp. 174-180; Chap 8 pp. 241-245).

5. When compared with other Gulf countries, the average Saudi employee enjoys competitive wage, coupled with the low cost of fuel and raw materials the country has been enjoying. This has helped reduce the cost of doing business by foreign companies (Chap 7 pp.174-180; Chap 8 pp. 241-245).

6. The high rate of unemployment has affected FDI in Saudi market. High unemployment rate causes a drop in purchasing power, which will in turn affect investment returns of foreign companies that sell their products and services within the local market than those that export theirs. Furthermore, this will cause the government to implement stricter regulations on foreign investors regarding job resettlement (Chap 7 pp. 186; Chap 8 pp. 249-250).

7. Current monetary policy which required the Riyal to be pegged against the US dollar has been of great benefit to foreign investors. This policy has safeguarded currency from fluctuation, and has also stabilized financial budgets which have helped foreign investors maintain their investments. Though the impact the depreciating Riyal has had on the economy has been a limited one, financial transactions have been affected (Chap 7 pp. 194-198; Chap 8 pp. 250-252).
8. It’s been found that any attempt to increase the value of the Riyal, will no way improve FDI. However, concerns have been raised regarding the future of Saudi monetary policy if these steps are not applied. There will be a loss of currency

stability, with investors predicting further changes in currency rate due to frequent alteration of monetary policy (Chap 7 pp. 201-204; Chap 8 pp. 253-255).

9. When the pegging of the Riyal against other currencies is put into consideration, it became obvious that this decision has had a negative impact on FDI. This is due to the fact that foreign investments will be subjected to increased risk with fluctuating currencies which will cause more instability. This policy will call for adjustments in future investment plans due to increased risk which adds up to investment costs (Chap 7 pp. 206-210; Chap 8 pp. 255-256).

8.4.4 Facts relating to foreign investors

1. One of the major driving factors for FDI is return on investment. It is for this reason that investors first have to take into consideration barriers that has the potential of affecting their returns (section 6.2).

2. Investors also take into account purchasing power before coming into the market (section 5.1).

3. Concerns have been raised regarding the political atmosphere of Saudi Arabia. However, high risk attracts high income and revenues (section 6.1).

4. Frequent alteration of government regulations constitutes high investment risk (section 5.2).

5. Political stability is an important factor which affects FDI. Foreign investors operating in other countries often study the relationship that exists between the government and the citizens (section 6.1).

6. Religious inclination is another factor put into consideration by foreign investors. For instance, investors coming from Islamic States often prefer doing business somewhere near Mecca and Medina (section 5.1).

7. Social implication is yet another factor to be put into consideration. It is important for foreign companies to get accustomed to the culture of the community they intend operating in (section 5.2).

8. It is imperative for foreign companies to understand how best to deal with religion police. They also need to get familiar with all restrictions that exist in a culture (section 5.2).

9. It has become needful for there to be a database of recent investment opportunities in Saudi market, as the growing economy has expanded investment opportunities for investors. These opportunities ought to be contained in a formal list for the sake of fair competition (section 5.2).

8.4.5 Further Actions that need to be undertaken by government to improve FDI

1. Full detail of laws and regulations needs to be made available to embassies of foreign investors (section 5.2).

2. Proper clarification needs to be made about the source of the information; is it coming from the chamber of commerce or investment authority (section 5.2).

3. More attention should be given by the government to the training of employees so as to make them competent enough to work in different industries and sectors. The government ought to draft a 10 year plan that will cover the rapidly growing economy. This should include plans of building up strong manpower (section 7.3).

4. It is important for the government to find solutions to Saudization policy which has already been causing friction in the relationship that exists between the government and foreign investors (section 7.3).

5. It is needful for the government to implement well-adjusted policy that will improve the relationship between foreign companies and employees. This policy should protect the rights of employees and employers at the same time (section 7.3).

6. Immigration authorities need to specifically study each investor. An investor that invests hundreds of millions into the market shouldn't be treated in the same way as one that invests a couple of thousands. All foreign companies must have to abide by these laws and regulations (sections 5.2 and 5.5.1).

7. Neighboring countries such as Bahrain and UAE have made attempts to implement FDI policies, Saudi Arabia can implement similar policies to attract more foreign investors (section 5.1, 5.2 and 5.5).

8. Policies that terminate licenses of foreign investors should be revised. Proper consultations should be done to identify the root problem. Once identified, a notice should be given to defaulting companies so as to make improvements (sections 5.2 and 5.5.1).

9. For enhanced efficiency in FDI, the government should adopt digital solutions. This will save investors the trouble of going through the traditional means of obtaining their licenses; as such step will make it possible for them to get licenses online (sections 5.2 and 5.5.1).

10. Government's plan for the investment system should be realistic enough. The investment system shouldn't only include large investment companies, small and medium scale companies should be accounted for (section 5.2).

11. The government should actively get involved in international forums and conferences, as they offer an excellent platform to promote investment opportunities in Saudi Arabia (sections 5.5 and 5.5.1).

12. The media has had a considerable impact on local communities, and so it is important for government to monitor their activities regarding FDI (section 5.2).

13. Adopting a brand name just like Dubai and Qatar has done, will make Saudi Arabia an attractive investment destination (section 5.5).

14. The government needs to improve its efficiency by cutting out bureaucracies which adds flexibility to the system (section 5.5.1).

15. Government ought to boost the confidence of foreign investors in the stability of the Kingdom by dealing with all terrorist activities including those coming from other countries (sections 6.1 and 6.2.1).

16. Embarking on expansive infrastructural projects such as air and sea ports as well as highways, will attract foreign companies the more (section 5.2).

17. The government needs to increase its spending on the industrial sector, as doing so will attract more foreign investors who will strengthen the industrial sector which is already receiving much preference from foreign investors (section 5.3).

18. It is needful for the government to lessen the restriction on FDI laws and regulation, while also providing more support to the agriculture sector which has received the least attention from foreign companies (sections 5.2 and 5.3).

19. The need for government to implement reforms to political and economic policies as well as the social life of the citizens. This can be achieved by eliminating corrupt practices which compromise the quality of living. When these reforms are implemented, FDI will definitely improve in the country (section 6.1 and 6.5).

20. Should the government decide to raise the value of the Riyal against the dollar, it is important for careful planning to be put in place so as to develop viable economic

policies. This plan should first start with gradual disengagement of the US Dollar, while simultaneously linking up with other major currencies which Saudi economy depend on. Next step will be to diversify foreign investments while also distributing Saudi's external investment in such a way that it creates some balance in different market. This plan will have to be implemented on long-term basis, and so it is important for the government to have a clear vision for the next five years (section 7.5.2).

21. Should the need for this relationship to be terminated arise, a sensible economic model will have to be implemented. This model has to take into account other income sources such as industrial, FDI, and commercial sectors as doing so will cut back the country's over dependence on oil (section 7.5.3).

8.5 Summary

In this chapter, results obtained from interviews and statistical analyses have been summarized. It has been found that some of the concepts in the literature fit well into FDI case in Saudi Arabia. However, evidence has it that the Saudi market has been different from others, as it has rejected some of these theories partly or completely.

Discussions of regulatory factors have led researchers to identify most of the factors that have negatively affected the inflow of FDI and foreign projects. Though these barriers vary from one sector to the other, the most prominent of them are those bordering on government operations and perception of the society. Even though the government has been making serious efforts regarding this, it hasn't been enough. It is well known that the industrial sector has received the most attention from foreign companies even though sectors like oil refining, retail and real estate is still in existence. In addition to this, most foreign investors still prefer to partner with local businesses when entering the market.

Political stability the country has been enjoying for a while now has attracted more investors to Saudi Arabia. It was observed that terrorism and internal conflict bears only very little effect on FDI. Furthermore, external conflicts like Arab Spring which have created tension in the relationship with Iran, hasn't affected FDI. As a matter of fact, this has had a positive effect on FDI. After considering the prospects of obtaining nuclear weapons, it was found that this move would have a negative effect on the economy as well as the FDI sector.

Discussion obtained from qualitative study has brought to the notice of researchers the rapid growth which the country has witnessed due to increasing oil prices, and this has been considered a major factor of attraction to foreign investors. The increasing price of oil has had a positive effect on the economy of Saudi Arabia, as it has empowered the government to spend massively on infrastructural projects, and this spending has led to further expansion of the country's GDP and market. The increasing inflation rate hasn't been a barrier to FDI. Unemployment and Saudization policy have been the major barriers to the inflow of FDI. Lastly, foreign investors have considered the stability of the Riyal as a big advantage for their investments.

This is a comprehensive summary which has covered the three main factors of this study; regulatory, politics and economic factors. There are two sets of recommendation which needs to be used as a guideline for improving FDI sector. The two channels through which these suggestions will have to be dispersed are;

1. Recommendation and information aimed at increasing the awareness and knowledge of foreign investors before entering the market.

2. The government should go a step further in attracting FDI in a more competitive manner.

In the next chapter are final discussions on discussion and summary. Added to this, limitations, future implications and contributions will be discussed.

CHAPTER NINE: CONCLUSION AND SUMMARY

9.0 Introduction

This is the last chapter of this study. In this chapter we shall be looking into the following:

(a) Research findings and how the research objectives were achieved.

(b) The contributions (theoretical and practical) of this research to the contemporary understanding of the researched topic.

(c) The limitations encountered during the research processes.

(d) Useful suggestions for future research.

(e) The conclusions and summary of the completed research.

9.1 The Research Objectives and Questions

The primary objective of this study was to explore the major barriers encountered by foreign investors who intend to enter the Saudi market. The first chapter of this study addressed a number of objectives to be achieved through this research, which includes an expansion in the knowledge of FDI in Saudi Arabia. A number of questions were also proposed in order to provide an explanation of the potential risks that should be considered by foreign investors who want to penetrate the market.

9.1.1 Objective One: To study the effect of Saudi Arabia's regulatory policies on FDI.

Research Question 1: *What are the ways in which government policies positively or negatively affect the inflow of FDI into Saudi Arabia?*

Chapter five of this research provides a detailed explanation to the above question, including the impact of government policies on the flow of foreign direct investment into the Saudi market. Also investigated was the influence of the Kingdom's culture and local media on foreign investments and the barriers caused by the government through its complicated bureaucracy and difficult governmental processes.

In chapter eight of this study, the researcher focused on the relationship between the findings in chapter four and the relevant pieces of literature in chapter two with the purpose of linking them together through an academic approach and testing of the conceptual framework. The findings identified certain barriers on FDI in Saudi Arabia, which include:

a) Frequent changes in government regulations or policies.
b) The forbidden or controlled investment list (restrictions).
c) Instead of foreign investors to invest directly into the market, they partner with local investors in order to overcome certain barriers.
d) The Saudization policy.
e) The conservative culture and unfavourable media are barriers to FDI in Saudi Arabia.

9.1.2 Objective Two: To examine how political factors (both internal and external) affect FDI in Saudi Arabia.

Research Question 2: *What are the impacts of political factors, such as the tension between Saudi Arabia and Iran, terrorist activities, and the Arab Spring on FDI in terms of entering and remaining in the Kingdom's market?*

Chapter six provided a detailed explanation of the results gathered from the qualitative interviews. The chapter was divided into four major parts: terrorist activities inside Saudi Arabia, the Kingdom's political tension with Iran, the nuclear programs and the Arab Spring. These political factors were investigated in terms of their influences on FDI in the Saudi market.

On the other hand, chapter eight validated the relevant pieces of literature in chapter two by connecting them to the outcomes of the qualitative interviews. These outcomes were authenticated with sub-factors of conceptual frameworks in chapter three. The findings showed that:

a) The conflicts in countries surrounding Saudi Arabia have made foreign investors adopt a short-term investment strategy in the region.
b) The activities of terrorist groups had very limited effect on FDI in the past, but can still be a thing of concern.
c) The political conflict between Saudi Arabia and Iran has the potential of creating investment opportunities in Saudi Arabia, because Saudi Arabia can seize such

opportunity to promote the eastern province of the Kingdom as a safe place for investment.

d) Foreign investors do not see the Iranian nuclear program as a serious threat to investment in Saudi Arabia.

e) If Saudi Arabia tilts towards obtaining a nuclear weapon, foreign investors will begin to withdraw their investments in anticipation of the imminent economic sanctions that would be imposed on the Kingdom by the international body.

f) If Saudi Arabia develops a nuclear program for civil purposes, the flow of FDI in the Kingdom will be enhanced.

g) The Arab Spring affected the economy of Saudi Arabia positively due to the shifting of investments from the unstable neighbouring market to the stable Saudi market.

h) The conflicts in neighbouring countries surrounding Saudi Arabia have made foreign investors adopt a short-term investment strategy in the region.

i) The Kingdom's economy will be enhanced if the government reduces its restriction policies or regulations on FDI

9.1.3 Objective Three: To examine how economic factors affect FDI in the Saudi market.

Research Questions 3: *What are the impacts of the macroeconomic situation on economic growth and the flow of FDI?*

Research Questions 4: *How do the Saudi Riyal policy and its possible change in the future affect FDI in Saudi Arabia?*

The achievement of the above objectives is discussed in chapter seven of this study. The qualitative analyses provided different opinions on the economic situation and currency policy in Saudi Arabia, and how it can influence the flow of FDI into the Kingdom's market. The chapter contains some statistical analyses of selected economic variables over the last 30 years, and how these variables influenced FDI in Saudi Arabia.

The chapter eight of this study provides more academic explanations aimed at connecting the outcomes of the qualitative interviews with the relevant pieces of literature in chapter two and also validates the sub-factors of conceptual frameworks of the study. For the macroeconomic variables, the findings of the study showed that:

a) The industrial sector is preferable for FDI because of the low-cost of fuel and significant support it receives from the government.
b) In contrast to the industrial sector, the agricultural sector is less attractive to FDI because of the presence of more profitable sectors.
c) The current drop in oil prices may compel the government to give more priority to FDI in order to boost the Kingdom's economy.
d) The high inflation rates did not have any significant influence on the flow of FDI or investors' decision to enter the Saudi market compared to other factors.
e) The minimum wage for Saudi employees has a competitive advantage for investment compared to other GCC countries.
f) The unemployment rate in Saudi Arabia is a thing of concern because it could lead to a decrease in purchasing power and could make the government put more restrictions on FDI in order to create more employment opportunities for its citizens.

On the part of the currency, the findings of the study showed that:

a) The current pegged exchange rate between Saudi Riyal and the US dollar is suitable for FDI in the Saudi market; this protects the investment from currency risks.
b) The changing of the current economic policy, such as the raising of the currency rate or pegging of the currency with many other different currencies instead of the US dollar, will lead to fluctuations in the value of an investment and add extra risk to currency forecasting.

9.1.4 Objective Four: To provide strategic solutions on how foreign investors can predict potential risks in the Saudi market, and to provide an action list of things the government should do to attract foreign investments.

Research Question Five: *What strategic solutions could be applied to predict and hedge potential risks in Saudi market?*

The above research question and objective were addressed and achieved in chapter eight, bearing in mind the concerns of investors who already have their investments in Saudi Arabia or desire to enter the market. Below are the things investors consider before making investments:

a) The amount of revenue they could generate.
b) The level of purchasing power.
c) The stability of government policies or regulations.

d) Detailed information about the market.

e) The political situation.

f) The religious condition.

g) Social and cultural behaviour.

h) The relationship between government and citizens.

Below are recommended actions the Saudi Authorities could take to enhance the flow of FDI into the Kingdom:

a) The government should make its regulations and required documents transparent.

b) There should be access to relevant information for investment.

c) In terms of job resettlement, the government should improve the current work policies to build a cordial relationship between employers and employees.

d) The adoption of other FDI models that succeeded in other countries will help the government to improve the flow of FDI.

e) The e-governance model is now a global trend; this should be adopted by the government to enhance FDI.

f) The government should advertise investment opportunities in the Saudi market.

g) The government should build brand names for the Saudi market.

h) The government should reform every sector of the economy and make the country the desired destination for investors.

i) The government should make and execute a long-term plan on how to gradually reform its economic policies. This reform should start with the diversification of the economy which would result in the independence of the Kingdom's economy.

9.2 Research Contribution

The contributions of this study to the literature are in two categories namely: the theoretical contributions and the practical contributions.

9.2.1 Theoretical Contributions

a) This research has contributed to the FDI literature on Saudi Arabia. It examined a number of relevant pieces of literature on FDI as related to the Saudi market. This research has proved that the economic pieces of literature do not always apply to all cases, and has also proved that inflation, terrorist activities and external conflicts cannot always be viewed as factors preventing foreign companies from investing in a country. The study of Saudi Arabia's market has proved that there are a number of factors that were given greater priority by investors before entering any market other than inflation and GDP growth rates.

b) This research has also contributed to the literature by examining a number of updated issues and events such as the Arab spring. In order to add more valuable content to the relevant pieces of literature, the researcher made an in-depth study on the effects of political factors on the flow of foreign investment to Saudi Arabia, a nation surrounded by unstable countries. An explanation was also given on how the external conflicts in neighbouring countries can, in contrast to the common belief, have a positive effect on the domestic economy, such as in the case of Saudi Arabia.

c) A number of new perceptions have also been built by studying how Foreign Direct Investment (FDI) in Saudi Arabia may be affected in the event of any change in the monetary policy. The researcher applied the principles of 'Grounded Theory' to study how the flow of foreign investments could be impacted by any change in the relationship between the Saudi Riyal and US dollar.

d) Furthermore, the research built a detailed conceptual framework that provides an understandable explanation of the general factors that influence the flow of FDIs in any country. The content of this conceptual framework can be effective at different levels (compound or individual) based on the position and economic ranking of the country. The research has contributed to the literature by integrating the fundamental sub-factors that were studied through different categories such as the regulatory, political, and economic factors. These sub-factors of the conceptual framework can be considered as theoretical guidelines for any potential research in the FDI field. This conceptual framework was developed by the researcher through the incorporation of different pieces of literature and previous studies that examined different cases.

9.2.2 Practical Contribution

a) The research explored a number of new potential risks that have not been previously investigated in terms of FDI; such as the possibilities of obtaining nuclear weapons. These events and their effects on FDI in the Saudi market have been obviously analysed.

b) The researcher also studied the role of the relationship between the government and the investors. Thus, a number of suggestions were made (chapter eight), which can be used either by government or investors, as recommendations or guidelines in the FDI sector.

c) This thesis examined facts about the Saudi market and the investment opportunities in the Saudi country. The research investigated factors that should be taken into consideration before or after entering the market. Based on the valuable information obtained through different methods including interviews with very knowledgeable respondents, this study can be considered as a set of guidelines for investors who intend to invest in the Saudi market.

d) These suggestions can also help the government to change its complicated regulations in order to improve FDI. The implementation of e-governance will provide more flexibility to enable companies and capital to move to the Saudi market at ease.

e) A number of issues considered by investors before entering any market (chapter eight) were addressed. These addressed issues can be used as guidelines by the Saudi government to improve the investment environment in the Kingdom. They can also be used as standard recommendations for investors to determine a suitable time to enter the market, ascertain the targeted sectors, and determine the method of entering the market, whether by direct investment or through a partnership with local investors.

9.3 Research Limitations

During this study, many limitations that influenced the research processes were identified. The researcher anticipated some of these limitations, while others came up unexpectedly during the different stages of the study. Nevertheless, the researcher was able to scale through all odds to reach the conclusion of this study, and the limitations are now being discussed below.

9.3.1 Lack of Available Pieces of Literature

At the beginning of this study, the researcher considered the effects of the Arab Spring on the flow of FDI into the Saudi market. However, this PhD Research Project was enrolled three months after the beginning of the Arab Spring, therefore, it was considered a new field that needs extra time to study and write about – it has really been a challenge to investigate the potential effects of the Arab Spring on the economy of Saudi Arabia. The researcher has been monitoring every update on relevant pieces of literature in this field in order to integrate them into the 'Literature Review' chapter.

9.3.2 The Conservative Community

This political factor was investigated and found to have a negative effect on the flow of FDI into the Saudi market. This investigation was done through the qualitative method, which required in-depth interviews with selected samples. However, in the conservative community of the Saudi society, it is difficult to speak or make a political statement in the public or through a recorded interview. These limitations became an added task on the researcher who had to skilfully convince the respondents to talk about political issues. The researcher has a wealth of experience in the marketing research field because he worked as 'Head of Qualitative Department' in 2008 and as 'Marketing Researcher' between 2003 and 2004; therefore, he was able to motivate the participants to answer the questions with sincerity. The researcher also made it very clear to the participants that the interviews were for academic purposes only, and that every answer given would be kept safe and confidential. Hence, the interviews were conducted in a friendly manner with respondents providing their answers without fear or restrictions.

9.3.3 Sample Selected

The qualitative data obtained partly depended on a number of interviews conducted with Senior Personnel in Foreign Companies and Consultancy Offices. The challenges faced by the researcher at this juncture were the difficulty in meeting these senior officers and scheduling a time and place where they could be interviewed – these Senior Officers are very busy and do not have much time for interviews due to the responsibilities they shoulder in their companies. To overcome this challenge, the researcher had to expand the base of the selected samples by adding and interviewing Senior Officers from the 'Middle Management Levels' whose works are related to the research field and can provide the required information for the research. As a result, the research time was maximized and the challenges solved.

9.3.4 Consideration of Applying Triangulation Test, Based on Quantitative Data

The researcher had to study and test many economic variables over the last 30 years in order to have a clear picture of the influence of these variables on the flow of FDI into the Saudi market. The outcomes of this test were expected to triangulate the findings of the qualitative analysis, if possible. However, the researcher discovered that it is not very possible to estimate the impact of these variables on FDI with any degree of reliability, as the movements of these variables are not synchronous. There are also varying lead times in decisions relating to FDI as opposed to the exchange rates. This asynchronous nature of these variables made it very difficult to correlate the impact of the various variables with the flow of FDI in the Kingdom.

9.4 Future Implications

The researcher recommends that research should be conducted on the following areas in order to enhance the flow of FDI into Saudi Arabia:

a) A future research should be conducted on how Saudi Arabia could enhance its economy through the implementation of the Sovereign Wealth Fund which will enable foreign investors to participate in the growth of the Kingdom’s economy.

b) Investigate the impact of the recent drop in oil prices on the future of Foreign Direct Investment (FDI) in Saudi Arabia.

c) More research about countries that can encourage their investors to transfer capital to the Saudi market should be conducted. The targeted countries should be categorized into specific sections, such as technological and industrial development, economic growth, and the positive relationships among currencies that could increase profitability.

d) Study the impact (negatively or positively) of the media on the flow of FDI, and how the media could be utilized to promote or increase investment opportunities in the Saudi market.

e) Research on how Saudi Arabia could be a suitable place for investment in the Middle East through the building of ‘brand names,' just like the one conducted for Dubai

City. This kind of research needs to be viewed from different angles such as marketing research, international relations, and government policies.

f) Another recommendation is to expand the research on how the government could shift to electronic governance, and how this move could be an encouraging factor to the flow of FDI into the country.

g) In the future, there should be a psychological research on the attitudes of the citizens and their perceptions toward FDI in the country. This kind of research should investigate the reasons for their aggressive behaviour and opposition to FDI. Clever techniques are required to change the mind-set of the people to favour FDI; therefore, these techniques should be outlined in a future research.

h) Research should be conducted in order to identify the sectors that should be improved and expanded by the Saudi government, in a manner that would attract investors. These sectors may include infrastructure, transportation, and agro-food technology sectors.

i) There should be a research on human resource development within the private sectors geared towards improving the skills of Saudi labour force so that they could be qualified to head and manage foreign companies in the Saudi market.

j) In the future, a comprehensive research should be conducted on the various ways the government could increase the rate of employment. The research should also look into ways the government could simplify their policies and regulations in order to attract Foreign Direct Investments (FDIs).

k) The rapid growth of new radical organizations should be investigated to ascertain their effects on FDI, as these new terrorist organizations (e.g. ISIS) are more aggressive towards foreign investments than the old organizations.

9.5 Summary

This study has addressed a number of factors acting as barriers to FDI in the Saudi market. It also proposed a number of relevant questions and objectives with the aim of achieving the objectives and answering the questions at the end of the research. The subjects that were discussed are diverse and have different factors such as the regulatory, political, and economic factors.

The regulatory factors were considered an obstacle to FDI, due to the frequent change of regulation, the forbidden investment list, the need for a local partner, the saudization policy, and restricted culture.

Political factors such as Saudi Arabia's uneasy relationship with Iran, the Arab Spring, and the activities of radical groups in the Kingdom were considered to have limited influence on the flow of FDI. The Arab Spring event has led to a positive influence on the FDI as it was moved from unstable countries to Saudi Arabia. This research also explored the possibility of Saudi Arabia embarking on a nuclear program for military or civil purposes. The influence such program is that it could have a negative impact on the future of FDI in the country. It has been found that the external conflict has encouraged investors to assign short-term investment strategy. The unstable relationship with Iran has created new opportunities for FDI to invest into other areas in the kingdom.

The researcher further examined the impact of economic factors on FDI. The study analysed the currency policy of the Kingdom and how it affects the flow of FDI. It has been found that the foreign investment targeted industrial sector, however, the agriculture sector was listed as a less preferable sector for FDI. In addition, the drop in oil prices encouraged the government to give more attention to the FDI sector as an alternative income source. The increase in inflation rate at specific periods wasn't taken into the consideration of foreign investors; however, the increasing of unemployment rate was concerned by FDI. Furthermore, through this research, the researcher was able to predict what the consequences would be on FDI if the government decides to modify the current currency policies, as it will add a risk for the foreign investment in the country.

The research has shown that the foreign investors consider a number of key factors in terms of entering Saudi market such as; the revenue size, purchasing power level, the availability of information, the stability of regulations and political regime. It has generated advice that can help Saudi authority to improve FDI section such as improving the flexibility of investment regulation besides adopting e-government models. In addition, the economic reformation is necessary to attract more investment to enter the market, also applying a number of marketing methods such as building a brand name.

The research has counterbid theoretically to the literature of FDI by supporting that the economic theories are not regularly suitable for all cases. It has been shown that FDI had ignored the impact of inflation, terrorism and the external conflict in Saudi market.

Furthermore, the research has examined a number of new issues in the region such as the Arab spring. The research has adopted grounded theory approach to generate a new concept of the impact of changing monetary policy on FDI. It has developed a detailed conceptual framework that can be applied in future research on FDI field. Moreover, the research has contributed practically by studying the relationship between government and foreign investors. The research has explored the concern of foreign investors in terms of entering the market and also it has been suggesting a number of further actions that should be applied by the government to develop FDI sector. Conclusively, this research work is set as guidelines for investors who intend to penetrate Saudi market.

Finally, it has addressed a number of limitations that were met during the study such as the lack of available pieces of literature of the Arab spring event. In addition, the participants were conservative in order to obtain political views during interviews, and also the challenge to select the participants. Moreover, it has been attempted to apply triangulation test to improve the validity of the data by testing extra macroeconomic variables. However, the movements of these variables are not synchronous, which made it very difficult to correlate the impact of the various variables with the flow of FDI.

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